



Comprehensive Annual Report

FOR THE YEAR ENDED DECEMBER 31, 2009

Retirement Department
City Hall, Suite 604
808 W. Spokane Falls Blvd.
Spokane, WA 99201-3324
Tel 509.625.6330 • Fax 509.625.6861

Email: sers@spokanecity.org • www.spokanesers.org

Introductory Section

Table of Contents

Introductory Section

Board, Staff, and Advisory Personnel	7
Organizational Chart.....	8
Description of Retirement System	9
Service Retirement Options.....	10
Letter of Transmittal	11
Key Changes During the Year	12

Financial Section

Independent Auditor's Report	15
Management's Discussion and Analysis.....	16
Statement of Plan Net Assets	24
Statement of Changes in Plan Net Assets.....	25
Notes to the Financial Statements.....	26
Schedule of Employer Contributions	34
Schedule of Funding Progress	34
Schedule of Administrative Expenses.....	35
Schedule of Investment Expenses	37

Actuarial Section

Certification Letter.....	42
Summary of Valuation Result	45
Demographics.....	56
Asset Information.....	57
Accrued Liability and Funded Status	60
Actuarial (Gain)/Loss	61
Amortization Schedule.....	62
Normal Cost.....	63
Contribution Summary	64
Schedule of Funding Progress	65
Schedule of Employer Contributions	66
Historical Summary of Fund Additions and Deductions.....	67
Other Schedules	68
Description of Actuarial Assumptions and Methods.....	73
Summary of Benefit and Contribution Provisions	75
Appendix – Data Tables.....	78

Statistical Section

Schedule of Revenues by Source	93
Schedule of Expenses by Type	93
Schedule of Benefit Expenses by Type	94
Retirements by Year	94
List of Service Retirements.....	95
List of Retiree Deaths	96
List of Active Member Deaths	96

Investment Section

Graph of Total Retirement Assets	99
Schedule of Investment Results	99
Evolution of SERS Asset Allocation.....	100
Investments Listed by Type	102

Administrative Organization

BOARD OF ADMINISTRATION

Bill Todd (Chair)	Elected Employee	Field Engineer, Engineering Services
Michael F. Coster	Elected Employee	WWTP Operations Superintendent, Advanced Waste Water Treatment Plant
Steven J. Sather	Elected Employee	Field Engineer, Engineering Services
Jon Snyder	Council Appointee	City of Spokane Council Member
Thomas E. Brown	Council Appointee	Human Resources Manager, Inland Empire Paper Company
David B. Walker	Council Appointee	Vice President/Private Banking, U.S. Bank
Jerry K. McFarlane	Board Appointee	Former President, Pension Consultants of the Northwest

INVESTMENT ADVISORY COMMITTEE

Dennis D. Clinton	President, Spokane City Credit Union
David B. Walker	Vice President/Private Banking, U.S. Bank
Pam Dolan	Director of Accounting, City of Spokane

STAFF

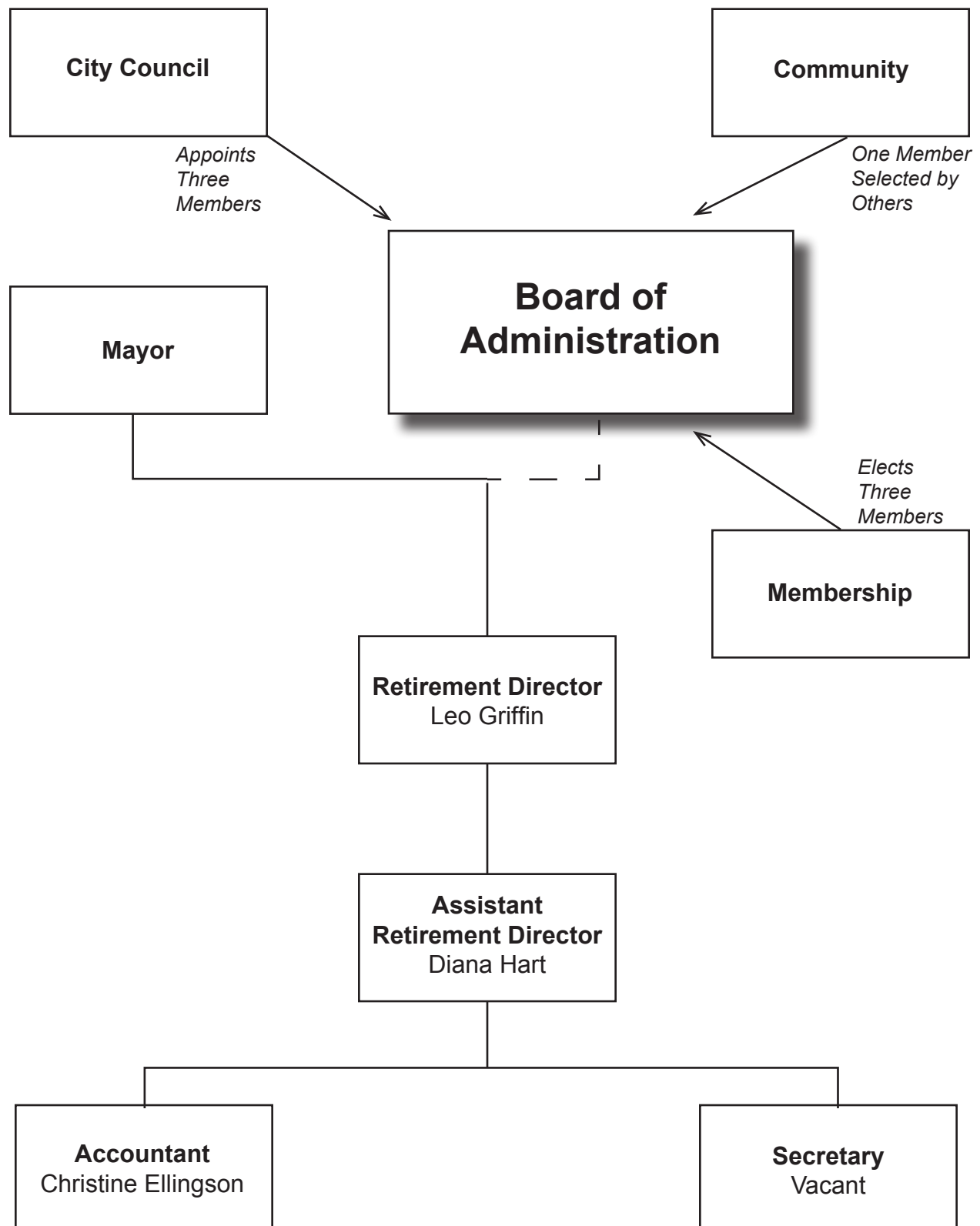
Leo F. Griffin	Retirement Director and Chief Investment Officer
Diana Hart	Assistant Retirement Director
Christine Ellingson	Accountant
Timothy Szambelan	Legal Advisor

ADVISORY

Certified Public Accountants	Moss Adams
Actuarial Services	SageView Consulting Group
Investment Performance Analysis	Hyas Group
Custodial Services	Union Bank
Legal Counsel	Davis Wright Tremaine

This Annual Report was printed and produced by Sir Speedy Printing, Spokane, WA.

Organization Chart



Description of Retirement System

SERS, a defined benefit pension plan, was founded July 1, 1942. Membership in SERS is required for all permanent non-uniformed employees of the City of Spokane. SERS is governed by a Board of Administration of seven members. Three members are appointed by the City Council and three employee members are elected by the SERS membership. The seventh member is appointed by the other six members and is not an elected official or an employee of the City. SERS provides retirement, death, and disability benefits which vest after five years of creditable service. A pension can commence at age 50, but certain rules may apply. This page contains a brief summary of the Retirement System; refer to the Summary of Benefit and Contribution Provisions contained in the Actuarial Section of this report for a more detailed explanation of the benefits.

For those employees hired on or before December 31, 2008, a straight retirement benefit is calculated by multiplying 2.15% of the member's highest consecutive two-year monthly salary by the member's years of creditable service. At 2.15%, their pension calculation is limited to 30 years of creditable service. An alternative formula exists for a maximum pension up to 35 years; however, if this alternative is selected at retirement, a 2.0% multiplier is utilized resulting in a maximum pension of 70.0%.

For those employees hired on or after January 1, 2009, age plus years of service must equal 75 "points" before they can draw a pension. Their straight retirement benefit is calculated by multiplying 2.0% of the member's highest consecutive two-year monthly salary by the member's years of creditable service to a maximum of 70.0%.

A number of optional forms of retirement benefits (see Service Retirement Options) are available which allow a retiree to provide benefits to his or her beneficiary with a reduction in pension benefits.

Member contributions, currently 7.75% of total salary-based compensation, are deducted from the member's salary and paid into the retirement fund. The City also contributes 7.75%. The City's contribution is used for funding the overall plan.

If a member has five years of service and becomes totally and permanently disabled, he or she may be eligible for a disability pension. If the disability is due to an injury incurred on the job, no minimum service is required. The amount of disability pension is calculated based on 1.25% of final average salary and service that would have been creditable had the member worked until age 62.

If a member terminates service within five years of entering SERS, their contributions plus interest are available for withdrawal. If the member is over age 50 and terminates after five years of service, they can elect to withdraw their contributions or they can elect to receive a monthly pension if they meet certain eligibility requirements. If a member is under age 50 and terminates after five years of service, they can withdraw their contributions or they can vest and begin receiving a pension at age 50 if they meet certain eligibility requirements. A number of service retirement options exist and these options are briefly explained on the following page.

Additional information can be obtained at www.spokanesers.org

Service Retirement Options

In each option, a pension is paid to the retiree for their lifetime. The options provide different types of a remaining cash balance, paid to a beneficiary, upon death of the retiree. Briefly, the options are as follows:

Straight Service The total pension is deducted each month from the retiree's total accumulated contributions, leaving any remaining balance to be paid to a beneficiary in one lump-sum upon the retiree's death.

Option "A" An annuity portion is deducted monthly from the retiree's total accumulations, with a lump-sum cash refund of any remaining balance being paid to a beneficiary upon the retiree's death.

Option "B" The death benefit is the same as in Option A, but it is paid in monthly payments until the balance of the total accumulations is exhausted.

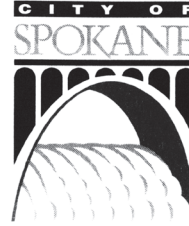
Option "C" In case of death within the guaranteed period, a retiree's beneficiary receives the pension for the remainder of a pre-selected time period of 5, 10, 15, or 20 years.

Option "D" Upon the retiree's death, 50% of the pension is continued to the retiree's spouse for life.

Option "E" Upon the retiree's death, 100% of the pension is continued to retiree's spouse for life.

If a retiree elects options "A" through "E," their monthly pension is actuarially reduced to provide a death benefit.

At the time of retirement, a retiree also has the option of withdrawing their contributions, with interest, in a lump-sum payment and giving up all rights to any further benefits from the Spokane Employees' Retirement System.



**SPOKANE EMPLOYEES'
RETIREMENT SYSTEM
FIREFIGHTERS' PENSION FUND
POLICE PENSION FUND**
808 W. SPOKANE FALLS BLVD.
SPOKANE, WASHINGTON 99201-3324
(509) 625-6330
FAX (509) 625-6861

LEO F. GRIFFIN, CPA
RETIREMENT DIRECTOR
AND CHIEF INVESTMENT OFFICER

DIANA HART
ASSISTANT RETIREMENT DIRECTOR

May 31, 2010

To the Honorable Mayor and
Spokane City Council
Spokane, WA 99201

This 68th Annual Report consists of five sections: The Introductory Section contains the letter of transmittal and an explanation of the administrative organization of the System; the Financial Section contains the audited financial statements of the System as well as an opinion letter from the System's independent certified public accountants; the Actuarial Section contains the consulting actuary's report along with related actuarial data and statements; the Statistical Section contains tables of significant data pertaining to the operation of the System; and the last section is the Investment Section, which includes information related to the System's investments.

The Retirement System began its first year of operations in 1942 and is managed in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code. The retirement plan is an employer-sponsored defined benefit plan that pays a determinable amount to each member who retires after a minimum number of years of service. Refer to the *Summary of Benefit and Contribution Provisions* contained in the Actuarial Section of this report for criteria and a more detailed explanation of the benefits.

The compilation of this report reflects the combined efforts of the staff under the leadership of the Retirement Board. The intention of this report is to provide complete and reliable information to assist in management decisions, to present evidence of compliance with legal provisions and to demonstrate responsible stewardship for the assets contributed by the members and their employer. The accuracy and completeness of the data contained in this report are the sole responsibility of the management of the Spokane Employees' Retirement System.

We would like to express our gratitude to the advisors and the many people who have worked so diligently to assure the successful operation of the System. Lastly, the Director would like to acknowledge the hard work and dedication of the Retirement Department staff: Diana Hart and Christine Ellingson. Without them, this report would not be possible.

Respectfully submitted,

Board of Administration,
Spokane Employees' Retirement System
As of December 31, 2009

Leo F. Griffin, CPA
Retirement Director

Key Changes During the Year

Key Changes to the Spokane Employees' Retirement System For the Year Ended December 31, 2009

January The contribution rate changed to 7.75% for both the employee and employer and employees hired on or before December 31, 2008 are given a choice, at retirement, of a 2.15% multiplier with a 30-year cap or a 2.00% multiplier with a 35-year cap. In addition, a Rule of 75 (age plus years of service) was introduced for those employees who entered the Plan on or after January 1, 2009; the Normal Retirement Age (NRA) remains at age 62.

April The Board approved a new buy-back provision, effective October 1, 2009. The provision opened a six-month buy-back window in effect from October 1, 2009 through March 31, 2010 for existing members. Refer to Ordinance C34471 for further information. The interest rate on buy-backs is changed to the current actuarial assumed interest rate in existence at the time of the buy-back. In addition, a rehired member now has one year (formerly six months) to redeposit an amount equal to that which the member previously withdrew from the System, or a portion thereof, at the current actuarial assumed interest rate in existence at the time of the buy-back.

Union Bank, NA (formerly Union Bank of California) replaced The Bank of New York Mellon as the System's custodian.

SERS moved its offices from the fourth floor of City Hall to the sixth floor.

Financial Section

Moss-Adams L.L.P.
Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

The Board of Administration
Spokane Employees' Retirement System
Spokane, Washington

We have audited the accompanying statement of Plan net assets of the Spokane Employees' Retirement System (SERS, the System, or the Plan), a pension trust fund of the city of Spokane, Washington, as of December 31, 2009 and 2008, and the related statement of changes in Plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Spokane Employees' Retirement System as of December 31, 2009 and 2008, and the changes in Plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management discussion and analysis on pages 2 through 9 and schedule of funding progress and employer contributions on page 19 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. This supplemental information is the responsibility of the Plan's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included on pages 20 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statement of SERS. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on such information.



Spokane Washington
July 7, 2010

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

This section presents management's discussion and analysis of the Spokane Employees' Retirement System's (SERS, the System, or the Plan) financial performance during the year ended December 31, 2009. Please read it in conjunction with the accompanying financial statements and the related notes.

This report is prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). Investments are stated at fair market value and revenues include the recognition of unrealized gains or losses. The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses. Revenue recognition occurs when earned without regard to the date of collection. Expense recognition occurs when the corresponding liabilities are incurred, regardless of payment date. For ease of reading, the dollar amounts that appear in this narrative are typically rounded to the closest one thousand dollars. The basis of contributions to the System is the Projected Unit Credit funding method, with current service contributions based on the normal contribution rate determined under the funding method and unfunded prior service amortized as a level percentage of covered payroll over a period of no more than 30 years in accordance with GASB standards. SageView Consulting Group, LLC, the System's actuary, evaluates the funding status of the System.

The financial section contains the following information:

- 1. Basic Financial Statements** including:
 - a. Statement of Plan net assets
 - b. Statement of changes in Plan net assets
 - c. Notes to the financial statements
- 2. Required Supplemental Information** including:
 - a. Schedule of employer contributions
 - b. Schedule of funding progress
- 3. Additional Information** including:
 - a. Schedule of administrative expenses
 - b. Schedule of investment expenses

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis (Continued)

The basic financial statements are described as follows:

- The statement of Plan net assets shows the account balances at year end and includes the net assets available for future benefit payments. The liabilities for future benefit payments are not included in this statement; however, they are shown in the schedule of funding progress that is included in the required supplemental information.
- The statement of changes in Plan net assets shows the sources and uses of funds during the year and illustrates the change in net assets from the previous year.
- The notes to the financial statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

The required supplemental information provides historical trends that help to reflect the ongoing Plan perspective and the long-term nature of the defined benefit plan.

- The schedule of funding progress contains actuarial information about the status of the Plan from an ongoing long-term perspective, in the accumulation of sufficient assets to pay future benefits when due. Actuarial liabilities in excess of the actuarial value of assets may indicate that insufficient assets are accumulated to fund the future benefits of current members and retirees.
- The schedule of employer contributions contains historical trend information regarding the value of the total annual contributions the employer has paid into the fund and the percentage contributed by the employer.

Financial Highlights

- Net assets increased by \$35.2 million (20.0%) during 2009 and decreased \$66.2 million (27.4%) in 2008. The 2009 increase was primarily due to gains in the equity markets in the U.S. and abroad. In 2008, the credit crisis had a damaging effect on the domestic and international investment markets.
- Revenues, additions to net assets, totaled \$51.6 million in 2009, compared to a negative \$50.2 million in the prior year. For 2009, revenue includes member and employer contributions of \$13.1 million and net investment earnings from investment activities totaling \$38.4 million. Member and employer contributions increased \$3.4 million and \$721,000 in 2009 and 2008, respectively. The sharp increase in 2009 is primarily attributable to a change in the employer and employee contribution rates effective January 1, 2009. Net investment income, which fluctuates year-to-year depending on market conditions, increased \$98.4 million from 2008 and decreased \$76.7 million in the prior year. In 2008, the equity markets were down sharply; in 2009, the markets were up sharply attributing to the large swing in net investment income.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights (Continued)

- Expenses, deductions from net assets, for 2009 were \$16.4 million, a 2.7% increase from 2008. Expenses for 2008 were \$16.0 million, a 3.5% increase from 2007. Retiree benefits and refunds of contributions increased by \$453,000 during 2009 and by \$402,000 during 2008.

Financial Statements and Analysis

Plan net assets:

The table below provides a summary of assets and current liabilities at year end:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash, short-term investments and receivables	\$ 4,114,731	\$ 21,682,990	\$ 28,411,344
Investments at fair value	206,941,031	154,195,440	213,819,507
Leasehold improvements, net	<u>14,908</u>	<u>-</u>	<u>-</u>
Total assets	211,070,670	175,878,430	242,230,851
Accrued expenses	<u>164,492</u>	<u>138,207</u>	<u>322,030</u>
TOTAL NET ASSETS	<u>\$ 210,906,178</u>	<u>\$ 175,740,223</u>	<u>\$ 241,908,821</u>

**SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS**

Changes in Plan Net Assets

The table below provides a summary of the changes in Plan net assets during the years and reflects the activities of the fund:

	Year Ended December 31,		
	2009	2008	2007
Additions:			
Employer contributions	\$ 6,474,432	\$ 4,875,443	\$ 4,518,363
Plan member contributions	6,637,872	4,882,622	4,518,363
Net investment income (loss)	38,442,846	(59,972,361)	16,715,588
Total additions	51,555,150	(50,214,296)	25,752,314
Deductions:			
Benefits	15,509,868	15,002,061	14,253,955
Refunds of contributions	315,919	370,947	717,005
Net administrative expenses	563,408	581,294	448,654
Total deductions	16,389,195	15,954,302	15,419,614
NET INCREASE (DECREASE)	\$ 35,165,955	\$(66,168,598)	\$ 10,332,700

Revenues - Additions to Net Plan Assets

- Employer contributions increased by \$1.6 million (32.8%) in 2009 and \$357,000 (7.9%) in 2008. Plan member contributions increased by \$1.8 million (35.9%) in 2009 and by \$364,000 (8.1%) in 2008. The increase in the Plan member contributions over the employer contributions is attributable to a buy-back ordinance that was in effect during the fourth quarter of 2009. Overall contributions increased sharply in 2009 due to a change in the contribution rates effective January 1, 2009, where both the employer and employee contribution rates increased from 6.72% to 7.75%.
- Net investment income totaled \$38.4 million in 2009 compared to a negative \$60.0 million in 2008. 2008 brought the Plan one of the worst years on record in the stock market, as the credit crisis, fueled by the sub-prime mortgage debacle, unwound itself during the summer and continued a downward spiral through the fall. In 2009, the markets were up sharply. Coupled together, 2008 and 2009 were historic in terms of rapidly moving downward then upward pressure in the equity markets.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)

MANAGEMENT DISCUSSION AND ANALYSIS

Expenses - Deductions from Net Plan Assets

- Retiree benefits paid increased by \$508,000 (3.4%) in 2009 and \$748,000 (5.2%) in 2008. The number of members retiring in 2009 increased compared to 2008 primarily due to a City initiated Voluntary Incentive Retirement Program.
- Refunds of contributions decreased by \$55,000 and \$346,000 in 2009 and 2008, respectively. Lump sum withdrawals from the Plan fluctuate from year to year.
- Net administrative expenses include salaries and benefits for the SERS director and staff, along with other costs associated with administering the Plan; further detail can be found on the Schedule of Administrative Expenses. Net administrative expenses decreased by approximately \$18,000 (3.1%) during 2009 and increased by \$133,000 (29.6%) in 2008. Professional services spiked in 2008 primarily due to increased legal and actuarial services associated with restructuring the Plan and a new method of allocating technology costs to SERS devised by the MIS Department.

Plan Membership

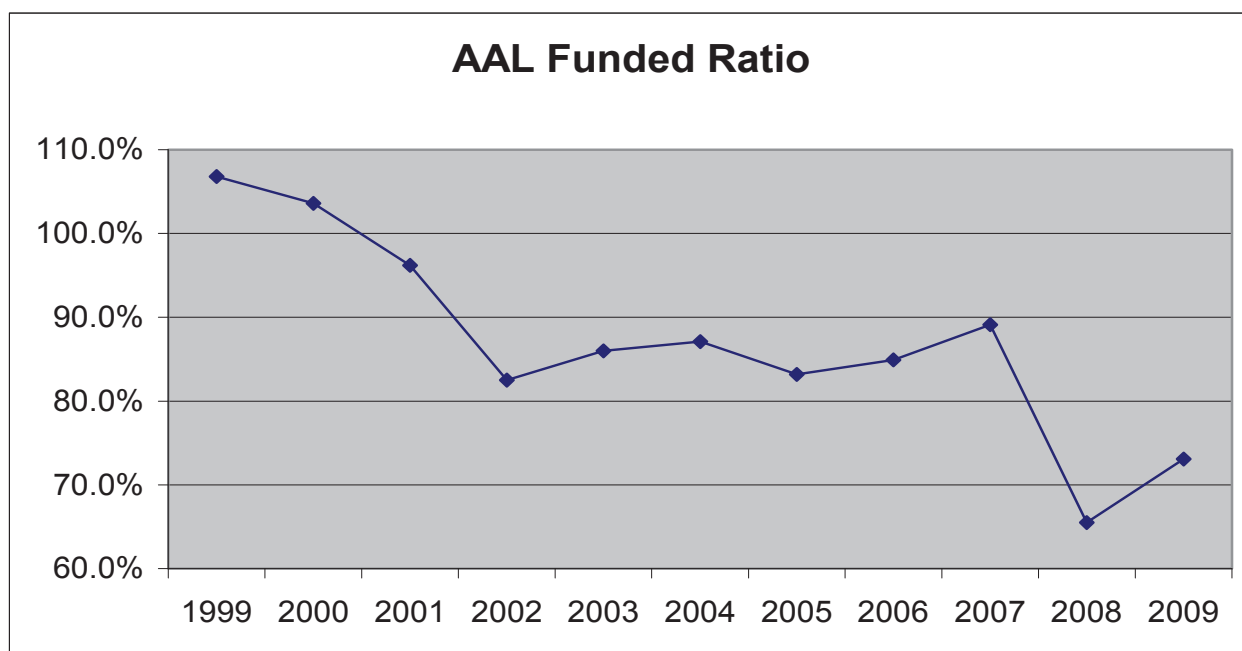
The table below reflects changes to the census of retirees and membership in SERS:

	2009	2008	% Change Increase (Decrease)
Retirees and beneficiaries receiving normal retirement benefits	1,041	1,008	3.3%
Disability retirees	10	11	(9.1%)
TOTAL RETIREES AND BENEFICIARIES	1,051	1,019	3.1%
Current and terminated employees entitled to, but not yet receiving benefits:			
Current employee members	1,501	1,492	0.6%
Vested terminated members	89	94	(5.3%)
TOTAL CURRENT AND VESTED EMPLOYEE MEMBERS	1,590	1,586	0.3%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS

Funding Status

**Schedule of Funding Progress
Funded Ratio**



The actuarial accrued liability (AAL) is the actuarial present value of benefits accrued to date, adjusted to reflect future salary increases in accordance with the actuarial assumptions. The AAL funded ratio compares the AAL to Plan assets. Poor market returns earlier this decade coupled with retiree benefit adjustments were factors in the decline of the funded ratio from its December 31, 1999, peak to its first low point in 2002. A second low point in 2008 was caused by the extreme deterioration of the world capital markets brought on by the sub-prime mortgage crisis resulting in the System's investments experiencing a large loss. A partial market recovery in 2009 attributed to the rebound in the AAL funded ratio. Looking back, the System lowered its discount rate from 7.5% to 7.0% in 2003 and increased it back to 7.5% in 2007. Other factors affecting the ratio's decline earlier this decade include actuarial losses due to differences between actual and assumed Plan experience. The AAL funded ratio was 73.1% at December 31, 2009, which reflects an increase of 7.6 percentage points during 2009.

Funds are accumulated from employer and employee contributions and investment earnings and are used to pay present and future benefit obligations and administrative expenses. Active members contribute 7.75% of their salaries to the retirement fund and the city contributes 7.75%. The actuary may recommend a change in the contribution rates when an experience study is performed, which occurs roughly every five years. The last experience study was performed effective December 31, 2006.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)

MANAGEMENT DISCUSSION AND ANALYSIS

Retiree Benefit Adjustment

The SERS Board of Administration considers issuing an ad hoc adjustment for retiree benefits each year. The Board can grant an ad hoc adjustment if the AAL funded ratio is 90% or greater and remains above 90% after the ad hoc adjustment is granted. As stated above, the AAL funded ratio is less than 90% as of December 31, 2009. The last ad hoc retiree adjustment occurred in 2001. Based on the current AAL funded ratio, it will take continued significant favorable experience in the investment markets or a future increase in contribution levels to raise the funded ratio above its target.

Investment Activities

One-year returns on asset classes and comparative benchmarks are presented in the table below. Negative returns are displayed in brackets and the policy index and benchmarks are in italics.

	Investment Return	
	2009	2008
Total portfolio	22.0%	(24.7%)
<i>Policy index</i>	28.1%	(29.2%)
Domestic equities	28.6%	(38.0%)
<i>Benchmark: Russell 3000 Index</i>	28.3%	(37.3%)
Real Estate	13.8%	(30.1%)
<i>Benchmark: FTSE NAREIT Composite Index</i>	27.8%	(37.8%)
International equities	38.6%	(39.8%)
<i>Benchmark: MSCI ACWI Ex USA Index</i>	41.5%	(45.5%)
Alternatives		
Absolute Return	(0.1%)	(11.2%)
<i>Benchmark: Fixed Income Alternatives - Barclays Capital US Aggregate Bond Index</i>	5.9%	5.2%
Long/Short Growth	17.8%	(17.2%)
<i>Benchmark: Equities Alternatives - S&P 500 Index</i>	26.5%	(37.0%)
Fixed income	10.8%	4.1%
<i>Benchmarks:</i>		
<i>Barclays Capital US Aggregate Bond Index</i>	5.9%	5.2%
<i>US T-Bills 90 day Index</i>	0.2%	1.4%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)
MANAGEMENT DISCUSSION AND ANALYSIS

Investment Activities (Continued)

The investments of the System are governed by the "prudent investor rule." The prudent investor rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the Fund.

Total investments, valued at fair market value, increased \$52.7 million in 2009 compared to a decrease of \$59.6 million in 2008. The investment portfolio experienced an overall positive return of 22.0% in 2009 compared to a negative return of 24.7% in 2008. The portfolio underperformed the policy benchmark in 2009 primarily due to the utilization of hedged equity strategies that were implemented specifically to reduce short-term volatility. These strategies tend to provide superior downside protection relative to long-only equity portfolios, but often lag long-only strategies in strong upward trending markets like we encountered in 2009. Over a full market cycle SERS expects these strategies to provide equity-like returns with significantly lower volatility.

The System invests funds for the long-term, anticipating both good and bad financial markets. Investments are diversified to reduce investment risk and mitigate the risk of underperforming the actuarial discount rate, over time. Each alternative investment that SERS enters into has been carefully studied by the System's independent investment consultant and has been reviewed by staff and the Board. The asset allocation study that was modeled by the independent consultant demonstrated that alternative assets have negative correlations to traditional asset classes and are expected to add value to the portfolio, over time. The Director and Board believe the use of alternative investments is a prudent approach to managing risk.

Contacting the Spokane Employees' Retirement System

If you have questions about this report or need additional information, please contact:

Spokane Employees' Retirement System
City Hall – Suite 604
808 W. Spokane Falls Blvd.
Spokane, WA 99201
www.spokanesers.org
509.625.6330

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)

STATEMENT OF PLAN NET ASSETS

	December 31,	
	2009	2008
ASSETS		
Cash	\$ 214,518	\$ 136,650
Short-term investments	3,807,402	21,000,665
Interest and dividends receivable	92,811	545,675
Total cash and receivables	4,114,731	21,682,990
Investments at fair value		
U.S. fixed income	46,457,779	36,354,108
U.S. equities	77,182,546	46,709,905
Real estate	9,031,397	7,271,985
International equities	44,816,347	36,331,474
Alternatives	29,452,962	27,527,968
Total investments	206,941,031	154,195,440
Leasehold improvements, net of accumulated depreciation of \$2,631 and \$-0- respectively	14,908	-
Total assets	211,070,670	175,878,430
LIABILITIES		
Accounts payable	74,513	80,280
Current portion employee salary and benefits	12,321	22,986
Pensions payable	34,870	-
Other current liabilities	9,885	18,817
Employee leave benefits	32,903	16,124
Total liabilities	164,492	138,207
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (see Schedule of Funding Progress)	\$ 210,906,178	\$ 175,740,223

(A schedule of funding progress is presented on page 34)

See accompanying notes

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)
STATEMENT OF CHANGES IN PLAN NET ASSETS

	Year Ended December 31,	
	2009	2008
ADDITIONS		
Contributions		
Employer	\$ 6,474,432	\$ 4,875,443
Plan members	6,637,872	4,882,622
Total contributions	13,112,304	9,758,065
INVESTMENT INCOME (LOSS)		
Net appreciation (depreciation) in fair value of investments	33,510,353	(64,690,043)
Interest, dividends, and other investment income	5,298,939	5,542,440
	38,809,292	(59,147,603)
Less investment expenses	366,446	824,758
Net investment income (loss)	38,442,846	(59,972,361)
Total additions (deductions)	51,555,150	(50,214,296)
DEDUCTIONS		
Benefits	15,509,868	15,002,061
Refunds of contributions	315,919	370,947
Administrative expenses, net of administrative income	563,408	581,294
Total deductions	16,389,195	15,954,302
CHANGE IN NET ASSETS	35,165,955	(66,168,598)
Net assets, beginning of year	175,740,223	241,908,821
Net assets, end of year (held in trust for pension benefits)	\$ 210,906,178	\$ 175,740,223

See accompanying notes

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)**NOTES TO FINANCIAL STATEMENTS**

Note 1 - Plan Description

The Spokane Employees' Retirement System (SERS) is a single employer defined benefit pension plan covering employees of the city of Spokane (the City), administered in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code (SMC).

SERS is a pension trust fund of the City and is presented as a blended component unit within the fiduciary fund of the City's comprehensive annual financial report. SERS has separate legal standing. The City is financially accountable for SERS because a financial burden is imposed on the City using the criteria of financial accountability. SERS has determined there are no entities that require inclusion within its financial statements.

All permanent employees of the City, including employees of the Plan, are eligible to belong to SERS with the exception of police and firefighters who are members of the State Law Enforcement Officers and Firefighters' Retirement System. At December 31, 2009, there are 1,051 retirees and beneficiaries receiving benefits; 89 vested terminated, including portables, entitled to future benefits; and 1,501 active members of the SERS for a total of 2,641 total members.

SERS provides retirement, death, and disability benefits. All employees hired on or before December 31, 2008, who participate in SERS are eligible for service retirement after completing five years of service if they are age 50 or older. Their retirement benefits are calculated by multiplying 2.15% of the member's highest consecutive two-year average salary by the member's years of creditable service, not to exceed 64.5%. All employees hired on or after January 1, 2009, who participate in SERS are eligible for service retirement after completing five years of service and are age 50 or older; however, this group of employees must have their age plus years of service equal to 75 before they can draw a pension. Their retirement benefits are calculated by multiplying 2.0% of the member's highest consecutive two-year average salary by the member's years of creditable service, to a maximum of 70.0%. In addition, the normal retirement age for the Plan is 62. Employees hired prior to December 31, 2008, have a choice, at retirement, of a 2.15% multiplier with a service cap of 30 years or a 2.0% multiplier with a service cap of 35 years. For either group, benefits may be reduced according to the retirement annuity option selected.

Note 2 - Summary of Significant Accounting Policies***Basis of accounting:***

SERS reports in accordance with the provisions of Governmental Accounting Standard Board (GASB) No. 25, *Financial Reporting for Defined Benefit Pension Plans* as amended by GASB 50 *Pension Disclosures*. The financial reporting framework for defined benefit pension plans required by GASB No. 25 distinguishes between two categories for information: (a) current financial information about Plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the Plan and the progress being made in accumulating sufficient assets to pay benefits when due.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of accounting (continued):

The financial statements were prepared using the accrual basis of accounting. Employee and employer contributions are recorded as revenues in the period in which payroll is due and expenses are recorded when the corresponding liabilities are incurred. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date.

Use of estimates:

In preparing the Plan's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investments:

All fixed income, common stock, and short-term investments are reflected in the statement of Plan net assets and are listed at fair market value. Short-term investments are reported at cost, which approximates fair value. Fixed income securities and common stock traded on national exchanges are valued at the last reported sales price. This market value methodology of pricing is performed by Interactive Data Corporation on a daily basis. Bloomberg and Merrill Lynch are also pricing sources. Investments that do not have an established market are reported at estimated fair value.

Certain investments, such as mutual funds and limited partnerships, net their management fees before the fund itself reports net investment income for the period. Investment fees detailed under the section "Investment Services" in the schedule of investment expenses represent cash payments made to money managers and other investment professionals. Mutual fund and limited partnership fees are not reflected in this schedule; however, investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.

Note 3 - Deposits and Investments

Deposits:

Effective October 3, 2008, the Federal Deposit Insurance Corporation (FDIC) temporarily increased federal deposit insurance coverage from \$100,000 to \$250,000, per depositor, through December 31, 2013. As provided by state of Washington RCW 43.84, the Washington Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of \$100,000.

SERS' large cash and short-term deposit position at December 31, 2008, is attributable to a restructuring of its investment portfolio, which was in process at that date, and the extreme volatility in the investment markets, which occurred during the latter part of 2008 and early 2009.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)**NOTES TO FINANCIAL STATEMENTS**

Note 3 - Deposits and Investments (Continued)***Investments:***

The Spokane Employees' Retirement System's investment management policy is set by the Board of Administration. The investment policy sets strategic asset allocation targets and ranges for all approved asset classes. SERS' investments are governed by an investment authority known as the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the Plan. SERS' investments are categorized to give an indication of the level of risk assumed by the Plan at year end.

Investments of the pension trust funds are reported at fair market value. The Board of Administration maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Administration has contracted with investment managers, a custodian, and an independent investment consultant. Investment manager contracts include specific guidelines regarding the investments under management. The independent investment consultant monitors the fund on a regular basis and provides quarterly reports to staff and the Board. The SERS' chief investment officer (CIO), who also serves as the retirement director, also monitors the Fund on a regular basis.

In 2007, the Board approved a new asset allocation, which includes an allocation to alternative investments. Funding of these limited partnerships began in late 2007 and continued during 2008 and 2009. The term "alternative investments" encompasses a broad category of nontraditional investments.

Credit risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SERS. Although the SERS' investment policy does not specifically address credit risk, this risk is mitigated by closely monitoring the credit quality ratings of its fixed income portfolios and by setting criteria for fixed income manager selection.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)
NOTES TO FINANCIAL STATEMENTS

Note 3 - Deposits and Investments (Continued)***Credit risk (continued):***

SERS' fixed income assets are shown with current credit ratings as of December 31, 2009, in the following table:

Investment Type	Total Market Value	Agency	AAA	BBB	B	Not Rated
Fixed income						
Government						
Agencies	\$ 1,637,351	\$ 4,226	\$ 1,633,125	\$ -	\$ -	\$ -
Mortgage backed						
Corp pass through	105,702	-	40,388	-	65,314	-
Corporate						
Notes and bonds	15,603	-	-	15,603	-	-
Mutual funds	44,699,123	-	-	-	-	44,699,123
TOTAL FIXED INCOME	\$ 46,457,779	\$ 4,226	\$ 1,673,513	\$ 15,603	\$ 65,314	\$ 44,699,123

The nonrated investments totaling \$44,699,123 in the credit risk schedule are composed of three fixed income mutual funds. The Agency investment of \$4,226 is a single investment in a pooled security with an implied rating of AAA.

Custodial credit risk:

Custodial credit risk is the risk that in the event of a financial institution or bank failure, SERS would not be able to recover the value of its deposits and investments that are in the possession of an outside party. SERS mitigates custodial risk by requiring, to the extent possible, that investments be clearly marked as to SERS' ownership and be registered in SERS' name.

Concentration of credit risk:

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. SERS does not have any investments from a single issuer (excluding investments in government fixed income securities) that represent more than 5% of the SERS' net assets.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)

NOTES TO FINANCIAL STATEMENTS

Note 3 - Deposits and Investments (Continued)

Interest rate risk:

Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Although the SERS' Investment Policy does not specifically address interest rate risk, SERS' fixed income portfolio is professionally managed with an expected range of interest rate risk within the portfolio. In addition, the portfolio is closely monitored by the independent consultant and the CIO. The segmented time distribution of SERS' fixed income assets are as follows as of December 31, 2009:

Investment Type	Total Fair Market Value	Fixed Income Maturities (in years)			
		<1	1 - 5	5 - 10	10 - 30
Fixed income					
Government					
Agencies	\$ 1,637,351	\$ -	\$ 1,633,125	\$ -	\$ 4,226
Mortgage backed					
Corp pass through	105,702	-	-	-	105,702
Corporate					
Notes and bonds	15,603	-	-	15,603	-
Mutual funds	44,699,123	-	41,437,019	3,262,104	-
TOTAL FIXED INCOME	\$ 46,457,779	\$ -	\$ 43,070,144	\$ 3,277,707	\$ 109,928

Foreign currency risk:

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At December 31, 2009, 21.2% of SERS' portfolio is invested in international mutual funds and a limited partnership fund of funds, which primarily consist of foreign equities. The fair market value of the foreign securities is \$44.8 million as of December 31, 2009. The SERS' Investment Policy does not specifically address foreign currency risk; however, SERS takes foreign currency risk into consideration during the selection and monitoring process of the fund managers.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)
NOTES TO FINANCIAL STATEMENTS

Note 4 - Contributions

Member and employer contribution rates are established by City Code, Chapter 4.14. The funding of SERS is currently based on the projected unit credit method of funding. SERS' funding objective is to achieve and maintain an actuarial liability funded status between 90% and 110%. Member contributions are 7.75% of eligible compensation and are deducted from the member's salary and paid into the retirement fund; the City contributes 7.75% of eligible compensation for a combined total of 15.50%. In 2008, total contributions were 13.44% split evenly between the City and the members. It is contemplated the contribution by the City will, when added to the member's contribution, plus other revenues, be enough to properly fund the retirement benefits set forth.

There are no long-term contracts for contributions outstanding and no legally required reserves.

Note 5 - Actuarial Information and Significant Actuarial Assumptions

As of December 31, 2009, the actuarial liability funded status ratio is 73.1%. The funding ratio increased by 7.6 percentage points during 2009 primarily due to robust investment gains during the year. Refer to the unaudited schedule of funding progress in the required supplemental information, which follows the notes to the financial statements, for historical information on the funded ratio and other actuarial funding data. A summary of actuarial methods and assumptions follows:

Valuation date	December 31, 2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent
Amortization period*	30 years - closed (28 years remaining on initial unfunded liability)
Asset valuation method	Expected value method with five-year smoothing and 90% - 110% market value corridor
Actuarial assumptions:	
Investment rate of return	7.5%
Inflation rate	3.0%
Projected salary increases	Ranges from 3.0% for employees with 16 or more years of service to 10.0% for employees with less than 2 years of years of service.
Postretirement benefit increases**	0.0%
Actuarial value of assets	\$231,996,796
Actuarial accrued liability	\$317,577,485
Unfunded actuarial accrued liability	\$85,580,689
Annual covered payroll	\$83,455,429
UAL as a percentage of covered payroll	102.55%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY OF SPOKANE, WASHINGTON)
NOTES TO FINANCIAL STATEMENTS

Note 5 - Actuarial Information and Significant Actuarial Assumptions (Continued)

*The total contribution rate is fixed at 15.50% of payroll (7.75% for the employer and 7.75% for the employee). The annual required contribution has been developed to equal actual employer contributions, if possible. If not, the maximum allowable amortization period is used. Because the contribution rates are fixed, the effective amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions.

**The SERS Board can grant an ad hoc performance adjustment if the Actuarial Accrued Liability (AAL) Funded Ratio of the System is above 90%, the additional Actuarial Accrued Liability associated with the ad hoc increase does not cause the AAL Funded Ratio to drop below 90%, and the combined employer and employee contribution rates are sufficient to fund the unfunded accrued liabilities as increased by the cost of the ad hoc adjustment over a period not to exceed the maximum allowable GASB amortization period (currently 30 years). Further information can be found in the SMC 03.05.160.

Note 6 - Commitments

As of December 31, 2009, SERS had unfunded commitments of \$2.4 million to two limited partnership real estate funds.

SUPPLEMENTAL INFORMATION

**SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)**
**SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)/SCHEDULE
OF FUNDING PROGRESS (UNAUDITED)**

Schedule of Employer Contributions							
Fiscal Year Ended	Annual Required Contribution	Actual Employer Contribution	Percentage of ARC Contributed	Annual Excess/ (Shortfall)	Annual Pension Cost*	Percentage of APC Contributed	Net Pension Obligation
12/31/2000	\$ 2,747,528	\$ 3,715,600	135.23%	\$ 968,072	\$ 2,706,566	137.28%	\$ (1,868,847)
12/31/2001	3,859,885	3,894,757	100.90%	34,872	3,792,685	102.69%	(1,970,919)
12/31/2002	3,569,284	3,919,254	109.81%	349,970	3,789,014	103.44%	(2,101,159)
12/31/2003	4,547,346	4,017,431	88.35%	(529,915)	4,471,792	89.84%	(1,646,798)
12/31/2004	5,867,117	4,095,810	69.81%	(1,771,307)	5,811,040	70.48%	68,432
12/31/2005	6,015,711	4,148,874	68.97%	(1,866,837)	6,018,087	68.94%	1,937,645
12/31/2006	6,231,299	4,287,457	68.81%	(1,943,842)	6,298,582	68.07%	3,948,770
12/31/2007	5,742,761	4,518,363	78.68%	(1,224,398)	5,834,697	77.44%	5,265,104
12/31/2008	8,826,967	4,875,443	55.23%	(3,951,524)	8,949,550	54.48%	9,339,211
12/31/2009	8,267,280	6,474,432	78.31%	(1,792,848)	8,484,717	76.31%	11,349,496

* Amortization of prior year's net pension obligation, with interest, plus ARC

Schedule of Funding Progress						
Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	UAL as a Percentage of Covered Payroll
12/31/2000*	\$ 194,488,937	\$ 187,644,219	\$ (6,844,718)	103.65%	\$ 55,420,648	(12.35%)
12/31/2001	190,150,661	197,656,627	7,505,966	96.20%	59,292,582	12.66%
12/31/2002*	170,359,975	206,435,061	36,075,086	82.52%	56,454,409	63.90%
12/31/2003	195,723,271	227,662,674	31,939,403	85.97%	61,380,769	52.03%
12/31/2004 *	209,217,925	240,260,424	31,042,499	87.08%	64,252,485	48.31%
12/31/2005	216,039,097	259,791,544	43,752,447	83.16%	64,061,964	68.30%
12/31/2006 *	231,576,121	272,817,605	41,241,484	84.88%	67,750,706	60.87%
12/31/2007	242,615,032	272,201,880	29,586,848	89.13%	69,261,673	42.72%
12/31/2008	193,314,245	295,223,177	101,908,932	65.48%	74,183,014	137.38%
12/31/2009	231,996,796	317,577,485	85,580,689	73.05%	83,455,429	102.55%

* An actuarial update

Prior to 2007, actuarial updates were performed in the even numbered years. Beginning in 2007, a full actuarial valuation was performed every year.

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)
SCHEDULE OF ADMINISTRATIVE EXPENSES (UNAUDITED)

	<u>2009 Budget</u>	<u>2009 Actual</u>	<u>2008 Actual</u>
Personnel services:			
Salaries and wages	\$ 313,993	\$ 255,658	\$ 258,308
Personnel benefits	106,716	72,252	80,867
Administrative income	<u>(80,000)</u>	<u>(60,152)</u>	<u>(61,441)</u>
Total personnel services	<u>340,709</u>	<u>267,758</u>	<u>277,734</u>
Supplies:			
Office supplies	2,025	2,852	1,013
Publications	2,000	47	94
Postage	8,000	6,249	6,218
Minor equipment	<u>38,000</u>	<u>31,503</u>	<u>5,413</u>
Total supplies	<u>50,025</u>	<u>40,651</u>	<u>12,738</u>
Other services and charges:			
State audit charges	6,232	7,722	7,461
Professional services	200,000	99,264	158,615
Travel	20,000	13,146	5,494
Equipment repairs and maintenance	500	-	-
Registration and schooling	10,000	9,560	3,360
Other dues, subscriptions, and memberships	2,000	1,383	1,395
Printing	4,000	2,862	2,166
Depreciation	-	2,631	-
Other miscellaneous charges	<u>4,420</u>	<u>3,576</u>	<u>2,505</u>
Total other services and charges	<u>247,152</u>	<u>140,144</u>	<u>180,996</u>

Continued on next page

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)
SCHEDULE OF ADMINISTRATIVE EXPENSES (UNAUDITED)

	<u>2009 Budget</u>	<u>2009 Actual</u>	<u>2008 Actual</u>
Interfund (IF) payments for services:			
IF communication	\$ 5,232	\$ 5,604	\$ 5,742
IF office supplies	500	-	-
IF motor pool	500	-	-
IF risk management	2,238	2,238	2,736
IF unemployment	-	-	79
IF workers' compensation	2,908	2,908	2,377
IF repairs/maintenance	-	548	-
IF facilities maintenance	-	2,069	-
IF MIS	101,785	100,279	97,202
IF reprographics	2,500	473	813
IF warrant service	1,200	736	855
IF parking	-	-	22
	<u>116,863</u>	<u>114,855</u>	<u>109,826</u>
TOTAL ADMINISTRATIVE EXPENSES, NET OF ADMINISTRATIVE INCOME	<u>\$ 754,749</u>	<u>\$ 563,408</u>	<u>\$ 581,294</u>

SPOKANE EMPLOYEES' RETIREMENT SYSTEM (PENSION TRUST FUND OF THE CITY
OF SPOKANE, WASHINGTON)
SCHEDULE OF INVESTMENT EXPENSES (UNAUDITED)

	Year Ended December 31, 2009
Investment Services	
Champlain Small Cap Fund LLC	\$ 22,029
Principal Real Estate Investors LLC	50,603
Santa Barbara Asset Management LLC	52,863
Sterling Capital Management LLC (mid cap)	24,656
Sterling Capital Management LLC (bond)	6,709
Victory Capital Management Inc.	69,732
	<hr/> 226,592
Performance Measurement	
Hyas Group, LLC	93,700
Arnerich Massena & Associates, Inc.	3,719
	<hr/>
Custodial Services	
Bank of New York Mellon	16,620
Union Bank, N.A.	25,815
	<hr/>
TOTAL INVESTMENT EXPENSES	\$ 366,446

Mutual fund and limited partnership fees are not reflected in this schedule; instead, these investment expenses are netted against investment income in the statement of changes in Plan net assets to arrive at a net investment income amount.

Actuarial Section

SageView Consulting Group,
L.L.C.
Actuarial Valuation

**SPOKANE EMPLOYEES'
RETIREMENT SYSTEM**

**ACTUARIAL VALUATION
AS OF DECEMBER 31, 2009**



Sageview Consulting Group
4951 Lake Brook Drive, Suite 400, Glen Allen, VA 23060
804.290.7405 www.sageviewadvisory.com

April 15, 2010

Spokane Employees' Retirement System
808 West Spokane Falls Boulevard
Spokane, Washington 99201-3324

Ladies and Gentlemen:

Effective December 31, 2008, actuarial valuations of the Spokane Employees' Retirement System are performed annually. The results of the latest actuarial valuation of the System, which was prepared as of December 31, 2009, are summarized in this letter.

The valuation reflects the benefits in effect on the valuation date, and was prepared on the basis of the data submitted by the System using generally accepted actuarial principles and methods.

Financing Objective and Contribution Rate

The financing objective of the System is to:

- (a) fully fund all current costs based on the normal contribution rate payable by the System determined under the funding method; and
- (b) liquidate the unfunded accrued liability based on accrued liability contributions payable by the System over an amortization period of no more than 30 years; and
- (c) accomplish the above through a combination of Employee Contributions (currently 7.75% of pay) and Employer Contributions (currently 7.75% of pay).

The December 31, 2009 valuation develops an Annual Required Employer Contribution Rate (ARC), exclusive of employee contributions, of 9.91% of total payroll. The ARC rate compares with an actual Employer Contribution rate of 7.75% of total payroll. The Employer Contribution for the 2009 fiscal year of \$6,474,432 was less than the ARC of \$8,267,280 by \$1,792,848. As a result, the Net Pension Obligation (NPO) which is a measure of the excess of ARC plus the amortization of the prior year's NPO over Employer Contributions for fiscal years ended 12/31/1998 (the effective date of GASB 27) through 12/31/2009 increased from \$9,339,211 to \$11,349,496.

Unfunded Accrued Liability and Funded Status

The unfunded accrued liability is determined as the excess, if any, of the actuarial liability determined under the projected unit credit cost method over the actuarial value of assets. This unfunded accrued liability, and any changes in unfunded accrued liability due to changes in benefit provisions, actuarial gains and losses, and changes in methods and/or assumptions is amortized over a period of not more than 30 years, using a level percent of pay amortization method with contributions increasing 4% per year.

The unfunded accrued liability is \$85,580,689 as of December 31, 2009 and is being amortized over a period of 30 years using a level percent of pay amortization method with contributions increasing 4% per year. The amortization period and method are both acceptable for determining the annual required contribution in accordance with GASB Statements 25, 27, and 34.

The actuarial funded status of the System is the ratio of the actuarial value of assets to the accrued liability. This funded status increased to 73.1% as of December 31, 2009 from 65.5% as of December 31, 2008.

Spokane Employees' Retirement System
April 15, 2010
Page two

System's Assets and Member Data

The individual data for members of the System as of the valuation date were reported to the actuary by the System. While we did not verify the data at its source, we did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation. It is our understanding that the outside auditor of the System has also made an examination of the data.

The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by the System's Staff and audited by the independent auditor of the System.

Actuarial Assumptions and Methods

Actuarial assumptions are adopted by the Board, upon review of recommendations made by the actuary. An experience study was conducted for the five-year period ended December 31, 2006. This study resulted in the Board adopting several changes in assumptions as of December 31, 2007, at the recommendation of the actuary, in order to better anticipate emerging experience under the System. There have been no subsequent changes in assumptions since December 31, 2007.

The Board also adopted the use of an asset smoothing method beginning with the December 31, 2007 valuation. In order to smooth out market value fluctuations, the difference between actual investment earnings over expected investment earnings will be recognized in equal amounts over a five-year period with the restriction that the smoothed value of assets may not be less than 90% nor greater than 110% of market value.

The actuarial cost method utilized is the projected unit credit actuarial cost method. This method is an acceptable method for determining the annual required contribution in accordance with GASB Statements 25, 27 and 34.

Samples of the actuarial assumptions, and descriptions of the actuarial cost method and asset valuation method are set forth in the outline of actuarial assumptions and methods included in the report.

Legislative and Administrative Changes

The Spokane Municipal Code was amended by City Ordinance, establishing a six-month window from October 1, 2009 through March 31, 2010 during which the following employees could purchase prior service time or become a member of the System: (1) Current members who withdrew their retirement accumulations after leaving City employment and who were subsequently rehired but did not elect to buy back prior service time, and (2) current permanent employees who withdrew their retirement accumulations but never rejoined the System. The Ordinance also changes the allowed buy-back time for future rehired employees from six months to one year. Five employees elected to purchase prior service during 2009, resulting in an increase of \$9,584 in unfunded accrued liability.

Spokane Employees' Retirement System

April 15, 2010

Page three

Financial Results and Membership Data

Detailed summaries of financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report and the related membership data schedules. We were responsible for providing information for all schedules included in the Actuarial Section, as well as certain schedules included in the Financial Section (Schedule of Funding Progress and Schedule of Employer Contributions) of the comprehensive annual financial report for the fiscal year ended December 31, 2009.

To the best of our knowledge, this report is complete and accurate, and the System is being operated on an actuarially sound basis. All costs and liabilities have been determined in conformance with generally accepted actuarial principles and on the basis of actuarial assumptions and methods which are individually reasonable (taking into account past experience and reasonable expectations of future experience) and which in combination represent the best estimate of anticipated experience under the System.

The undersigned are available to provide additional information or answer any questions with respect to this report.

Respectfully Submitted By:

Sageview Consulting Group



William M. Dowd, FCA, EA

Managing Principal



William J. Reid, FCA, EA

Principal

Summary of Valuation Results

Presented in this report are the results of the actuarial valuation as of December 31, 2009 for the Spokane Employees' Retirement System.

The principal results include:

- The Annual Required Employer Contribution Rate (ARC) is 9.91% of total payroll. This compares to an actual Employer Contribution rate of 7.75% of total payroll.
- The actuarial funded status of the System (ratio of actuarial value of assets to accrued liability) as of December 31, 2009 is 73.1% as compared to 65.5% as of December 31, 2008.

The valuation was completed based on membership and financial data submitted by the System.

The following changes have been made since the last actuarial valuation:

- **Actuarial Assumptions and Methods**

Actuarial assumptions are adopted by the Board, upon review of recommendations made by the actuary. An experience study was conducted for the five-year period ended December 31, 2006. This study resulted in the Board adopting several changes in assumptions as of December 31, 2007, at the recommendation of the actuary, in order to better anticipate emerging experience under the System. There have been no subsequent changes in assumptions since December 31, 2007.

The Board also adopted the use of an asset smoothing method beginning with the December 31, 2007 valuation. In order to smooth out market value fluctuations, the difference between actual investment earnings over expected investment earnings will be recognized in equal amounts over a five-year period with the restriction that the smoothed value of assets may not be less than 90% nor greater than 110% of market value.

- **Legislative and Administrative Changes**

The Spokane Municipal Code was amended by City Ordinance, establishing a six-month window from October 1, 2009 through March 31, 2010 during which the following employees could purchase prior service time or become a member of the System: (1) Current members who withdrew their retirement accumulations after leaving City employment and who were subsequently rehired but did not elect to buy back prior service time, and (2) current permanent employees who withdrew their retirement accumulations but never rejoined the System. The Ordinance also changes the allowed buy-back time for future rehired employees from six months to one year. Five employees elected to purchase prior service during 2009, resulting in an increase of \$9,584 in unfunded accrued liability.

Summary of Valuation Results (continued)

<u>Demographics</u>	<u>2009</u>	<u>2008</u>
<u>Active</u>		
Number	1,501	1,492
Average Pay for Coming Year	\$ 55,600	\$ 49,721
<u>Retired and Beneficiaries</u>		
Number	1,051	1,019
Average Annual Allowance	15,535	14,872
<u>Terminated Vested and Portables</u>		
Number	89	94
<u>Total Membership</u>	2,641	2,605
<u>Unfunded Accrued Liability</u>		
Accrued Liability as of December 31	\$317,577,485	\$295,223,177
Actuarial Asset Value	\$231,996,796	\$193,314,245
Unfunded Accrued Liability	\$ 85,580,689	\$101,908,932
Actuarial Value Funded Status	73.1%	65.5%
<u>Contribution Rates</u>		
Annual Required Contribution (ARC) Rate*	9.91%	11.90%
Actual Employer Contribution Rate	7.75%	7.75%

* Exclusive of Employee Contributions (7.75% of pay)

Summary of Valuation Results (continued)

Contribution Rates

The results of the valuation as of December 31, 2009 determine the ARC rate for the System. The actual Employer Contribution rate is compared to the contribution rate developed in the valuation in order to determine the appropriateness of the actual Employer Contribution rate. As of December 31, 2009 the actual Employer Contribution rate of 7.75% is less than the ARC rate of 9.91%. The Net Pension Obligation, which is the cumulative excess of Annual Required Contributions over actual Employer Contributions adjusted with interest for fiscal years ended 12/31/1998 (the effective date of GASB 27) through 12/31/2009, was \$11,349,496.

Reasons for Change in the Rate

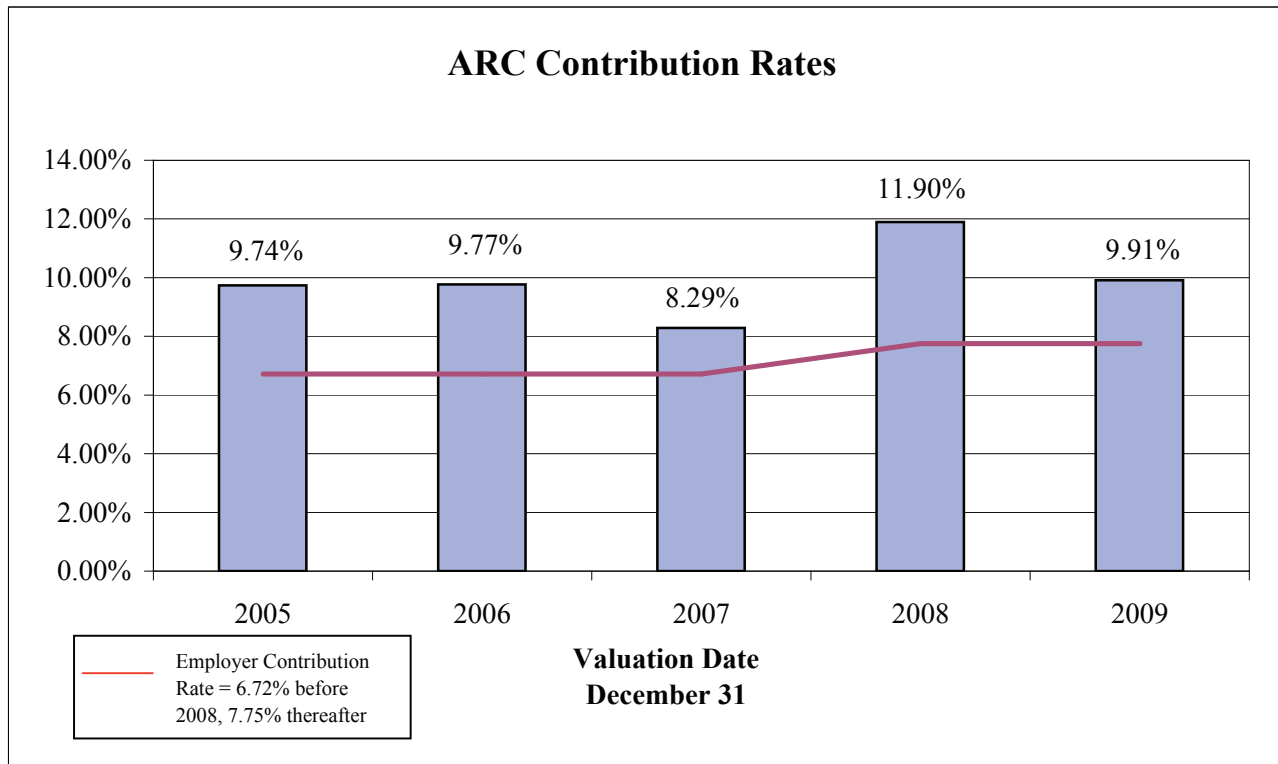
The recommended employer contribution rate as determined by the ARC decreased from 11.9% as of December 31, 2008 to 9.91% as of December 31, 2009. The decrease of 1.99% is due to the following reasons:

● Decrease due to return on actuarial assets	(1.75%)
● Increase due to change in benefit provisions	0.00%
● Decrease due to change in employee contribution rate	0.00%
● Decrease due to other factors	(0.24%)
● Total	<u>(1.99%)</u>

Summary of Valuation Results (continued)

**Five-Year History of Contribution Rates
(As a % of payroll)**

Valuation Date	ARC	Employer Rate
2005	9.74%	6.72%
2006	9.77%	6.72%
2007	8.29%	6.72%
2008	11.90%	7.75%
2009	9.91%	7.75%



Summary of Valuation Results (continued)

Unfunded Accrued Liability

The financing objective of the System is to:

- fully fund all current costs based on the normal contribution rate payable by the System determined under the funding method; and
- liquidate the unfunded accrued liability based on accrued liability contributions payable by the System over an amortization period of no more than 30 years; and
- accomplish the above through a combination of Employee Contributions (currently 7.75% of pay) and Employer Contributions (currently 7.75% of pay).

The System's unfunded accrued liability is measured by comparing the smoothed fair value of assets with the accrued liability. The accrued liability is determined under the projected unit credit cost method.

On this basis, the System's unfunded accrued liability is \$85,580,689 as of December 31, 2009. The unfunded accrued liability is based on a smoothed fair value of assets of \$231,996,796 and an accrued liability of \$317,577,485.

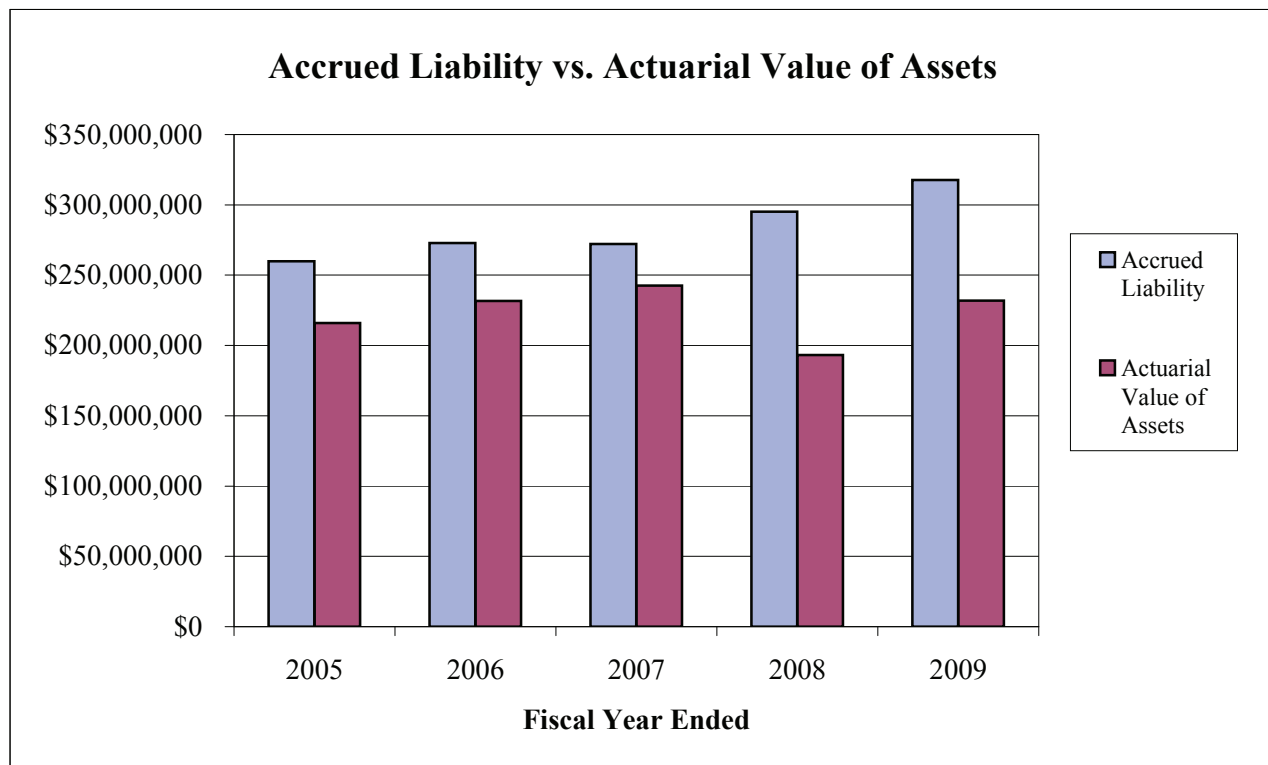
Reasons for Change in the Unfunded Accrued Liability

The unfunded accrued liability was expected to be \$105,270,939 as of December 31, 2009 based on the actuarial assumptions summarized in Table 16 of this report. The actual unfunded accrued liability was \$85,580,689 as of December 31, 2009. Investment gain on the actuarial value of assets was the primary reason for the decrease in unfunded accrued liability.

Investment gains on the actuarial value of assets resulted in a decrease in the unfunded accrued liability of \$26,997,382. In addition, demographic experience (primarily salary increases greater than assumed) increased the unfunded accrued liability by \$7,297,548 and a plan amendment increased the unfunded liability by \$9,584.

Summary of Valuation Results (continued)**Five-Year History of Accrued Liability and Actuarial Value of Assets**

Fiscal Year Ending	Accrued Liability	Actuarial Value of Assets
2005	\$259,791,544	\$216,039,097
2006	\$272,817,605	\$231,576,121
2007	\$272,201,880	\$242,615,032
2008	\$295,223,177	\$193,314,245
2009	\$317,577,485	\$231,996,796



Summary of Valuation Results (continued)

Funded Status

The funded status measures the ratio of the accrued liability to the value of assets.

The actuarial value funded status is calculated using the smoothed value of assets. On this basis, the System's funded status is 73.1% as of December 31, 2009. The funded status is based on a smoothed fair value of assets of \$231,996,796 and an accrued liability of \$317,577,485.

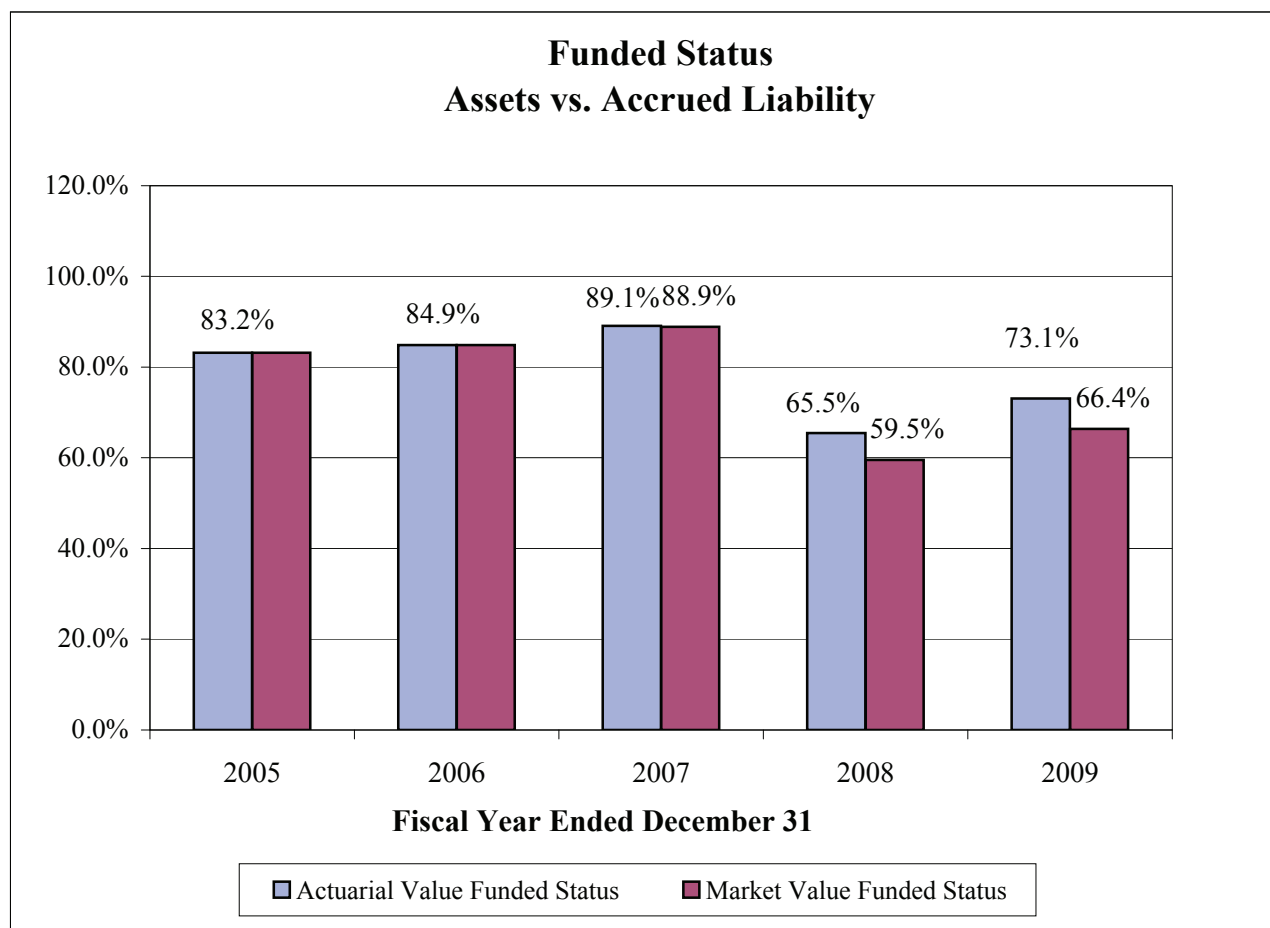
The market value funded status is calculated using the market value of assets. On this basis, the System's funded status is 66.4% as of December 31, 2009. The funded status is based on a market value of assets of \$210,906,178 and an accrued liability of \$317,577,485.

Reasons for Change in Funded Status

The actuarial value funded status increased from 65.5% as of December 31, 2008 to 73.1% as of December 31, 2009. The market value funded status increased from 59.5% as of December 31, 2008 to 66.4% as of December 31, 2009. In both cases, gains on investments was the primary reason for the increase.

Summary of Valuation Results (continued)**Five-Year History of Funded Status
(Assets vs. Accrued Liability)**

Fiscal Year Ending	Funded Status	
	Actuarial Basis	Market Basis
2005	83.2%	83.2%
2006	84.9%	84.9%
2007	89.1%	88.9%
2008	65.5%	59.5%
2009	73.1%	66.4%



Beginning with the December 31, 2007 valuation, the Actuarial Funded Status is based on the Smoothed Fair Value of Assets described in Table 16 of this report. Prior to 2007, the Actuarial Funded Status was equal to the Market Value Funded Status.

Summary of Valuation Results (continued)

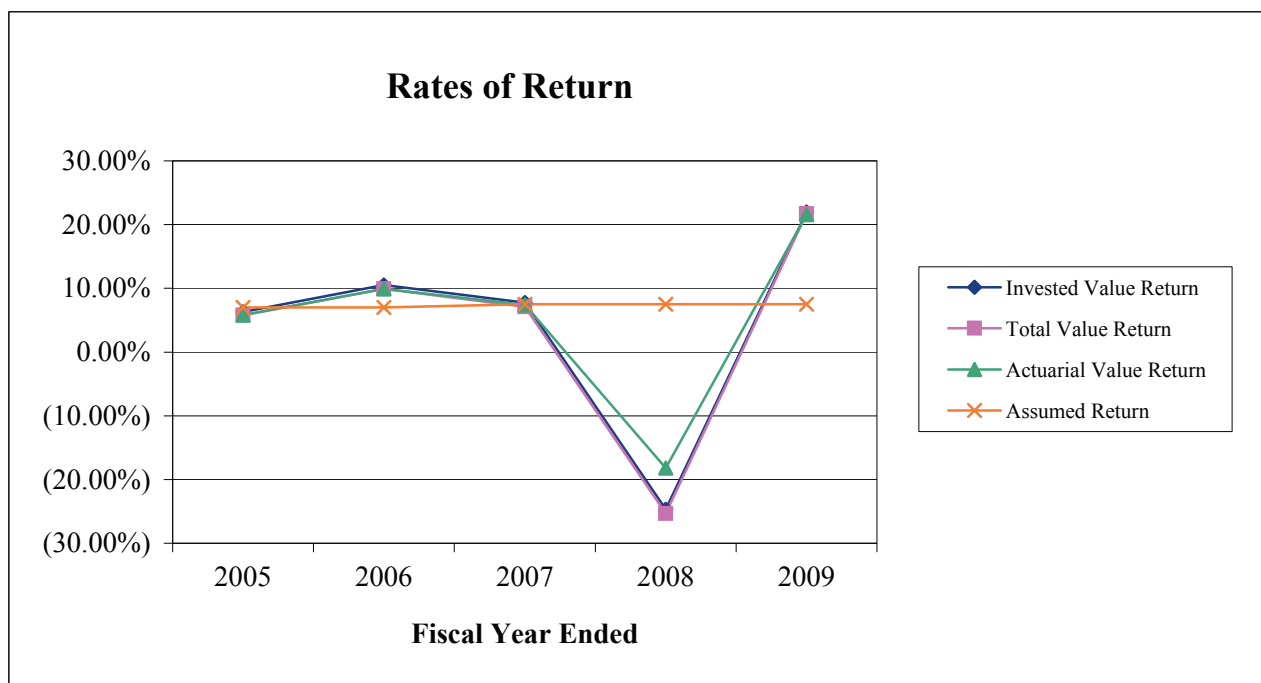
Rate of Return

The investment return of the trust fund (i.e. total return including both realized and unrealized gains and losses) based on the market value of invested assets for the fiscal year ended December 31, 2009 was 21.99%. However, since some contributions go directly to paying benefits and are never invested in the trust, the net investment return on total assets of the System was 21.72%. The investment return on the smoothed fair value of assets was 21.57%. The expected rate of return was 7.50%.

The smoothed fair value of assets is determined using a method that is designed to smooth the impact of market fluctuations. Unlike the market value, which immediately reflects all investment gains and losses during the year, the smoothed fair value recognizes annual appreciation and depreciation over a five-year period.

Summary of Valuation Results (continued)**Five-Year History of Rates of Return**

Fiscal Year Ending	Rate of Return on Assets			
	Invested	Total	Actuarial	Assumed
2005	6.30%	5.80%	5.80%	7.00%
2006	10.50%	9.91%	9.91%	7.00%
2007	7.76%	7.12%	7.42%	7.50%
2008	(24.68%)	(25.33%)	(18.22%)	7.50%
2009	21.99%	21.72%	21.57%	7.50%



Supporting Information

The remainder of the report is comprised of the following sections or schedules:

Table 1	Demographics
Table 2	Asset Information
Table 3	Accrued Liability and Funded Status
Table 4	Actuarial (Gain)/Loss
Table 5	Amortization Schedule
Table 6	Normal Cost
Table 7	Contribution Summary
Table 8	Schedule of Funding Progress
Table 9	Schedule of Employer Contributions
Table 10	Historical Summary of Fund Additions and Deductions
Table 11	Schedule of Membership
Table 12	Schedule of Active Members Valuation Data
Table 13	Schedule of Retirees Added to and Removed from Rolls
Table 14	Schedule of Retired Members by Type of Benefit; Schedule of Benefit Payments by Type
Table 15	Schedule of Average Annual Benefit Payments
Table 16	Description of Actuarial Assumptions and Methods
Table 17	Summary of Benefit and Contribution Provisions
Appendix	Data Tables

Table 1**DEMOGRAPHICS**

	<u>2009</u>	<u>2008</u>	<u>Increase/ (Decrease)</u>
Number of Members:			
Retirees	933	900	33
Beneficiaries	108	108	0
Disabled	10	11	(1)
Terminated Vested*	61	68	(7)
Portables	28	26	2
Active	1,501	1,492	9
Total Members	2,641	2,605	36
Projected Compensation for Coming Year	83,455,429	74,183,014	9,272,415
Average Compensation for Coming Year	55,600	49,721	5,879
Average Age (Active Members)	47.89	47.71	0.18
Average Service (Active Members)	11.75	11.81	(0.06)
Annual Retirement Allowance	16,326,879	15,155,066	1,171,813
Average Annual Retirement Allowance	15,535	14,872	663
Average Monthly Retirement Allowance	1,295	1,239	56

* The 61 Terminated Vested participants reported as of December 31, 2009 include 4 participants who have earned vesting rights but have not yet applied to the Board.

Table 2**ASSET INFORMATION****Statement of Net Assets as of December 31, 2009**

1. Cash & Short-Term Investments		4,021,920
2. Investments		
a. U. S. Fixed Income	46,457,779	
b. U. S. Equities	77,182,546	
c. Real Estate	9,031,397	
d. International Equities	44,816,347	
e. Alternatives	29,452,962	
f. Total Investments		206,941,031
3. Receivables		
a. Accrued Interest and Dividends	92,811	
b. Taxes	0	
c. Other	0	
d. Total Receivables		92,811
4. Other Assets		14,908
5. Liabilities		
a. Accounts Payable	(74,513)	
b. Salary & Benefits	(80,094)	
c. Other	(9,885)	
d. Total Liabilities		(164,492)
6. Total Market Value of Net Assets		210,906,178

Table 2**ASSET INFORMATION****Market Value Reconciliation**

1. Total Market Value of Net Assets, 12/31/2008		175,740,223
2. Audit Adjustment		-
3. Contributions		
a. Employer	6,474,432	
b. Employee	6,637,872	
c. Total Contributions		13,112,304
4. Investment Earnings		
a. Interest & Dividends & Other Income	5,298,939	
b. Realized & Unrealized Gain/(Loss)	33,510,353	
c. Investment Expenses	(366,446)	
d. Total Investment Earnings		38,442,846
5. Benefit Payments		
a. Benefits	(15,509,868)	
b. Refund of Contributions	(315,919)	
c. Total Benefit Payments		(15,825,787)
6. Administrative Expenses		(563,408)
7. Total Market Value of Net Assets, 12/31/2009		210,906,178
8. Approximate Rate of Return on Total Assets		21.72%
9. Approximate Rate of Return on Invested Assets		21.99%

Table 2**ASSET INFORMATION****Smoothed Fair Value of Net Assets Determination**

1. Total Market Value of Net Assets, 12/31/2008	175,740,223		
2. Expected Return for Plan Year	13,080,601		
3. Actual Return for Plan Year	37,879,438		
4. Total Market Value of Net Assets, 12/31/2009	210,906,178		
5. Determination of Deferred Gain (Loss)			
<u>Fiscal Year</u>	<u>Actual vs. Expected Return</u>	<u>Portion Deferred</u>	<u>Deferred Amount</u>
2009	24,798,837	4/5	19,839,070
2008	(78,490,063)	3/5	(47,094,038)
2007	(882,764)	2/5	(353,106)
2006	N/A	1/5	N/A
Total	(54,573,990)		(27,608,074)
6. Preliminary Smoothed Fair Value of Net Assets (4. - 5.)	238,514,252		
7. Ratio of Preliminary Smoothed Fair Value to Market Value	113.09%		
8. Smoothed Fair Value of Net Assets (7., but not less than 90% nor more than 110% of 4.)	231,996,796		
9. Ratio of Smoothed Fair Value to Market Value	110.00%		
10. Approximate Rate of Return on Smoothed Fair Value of Net Assets	21.57%		

Table 3**ACCRUED LIABILITY AND FUNDED STATUS**

1. Accrued Liability prior to Changes in Benefit Provisions and Assumptions		
a. Active	151,393,212	
b. Terminated Vested & Portables	8,356,023	
c. Retirees	148,005,725	
d. Beneficiaries	8,387,794	
e. Disableds	1,251,269	
f. Total Accrued Liability prior to Changes		317,394,023
2. Actuarial Value of Assets prior to Plan Changes		231,822,918
3. Unfunded Accrued Liability prior to Changes (1.f. - 2.)		85,571,105
4. Change in Unfunded Accrued Liability		
a. Due to Changes in Plan Provisions	9,584	
b. Due to Changes in Assumptions	0	
c. Due to Change in Asset Method	0	
d. Total Change in Unfunded Accrued Liability		9,584
5. Actual Unfunded Accrued Liability (3. + 4.c.)		85,580,689
6. Funded Liability Percentage as of December 31, 2009		73.1%

Table 4**ACTUARIAL (GAIN)/LOSS**

1. Increase (decrease) in Unfunded Accrued Liability

a. Unfunded Accrued Liability, prior year	101,908,932
b. Projected Unit Credit Normal Cost (excluding expenses)	8,664,152
c. Contributions	13,112,304
d. Interest	7,810,159
e. Expected Unfunded Accrued Liability, current year (a. + b. - c. + d.)	105,270,939
f. Actual Unfunded Accrued Liability, current year before benefit and assumption changes	85,571,105
g. (Gain)/Loss (f. -e.)	(19,699,834)

2. Reasons for (Gain)/Loss

a. Investment Return on Smoothed Fair Value of Assets	(26,997,382)
b. Other	7,297,548
c. Total	(19,699,834)

Table 5**AMORTIZATION SCHEDULE***

<u>Date Established</u>	<u>Source</u>	<u>Initial Amount</u>	<u>Remaining Balance</u>	<u>Years to Amortize</u>	<u>Required Payment</u>
12/31/2009	Actuarial Gain	(19,699,834)	(19,699,834)	30	(1,018,832)
12/31/2009	Plan Amendment	9,584	9,584	30	495
12/31/2008	Plan Amendment	940,216	971,542	29	51,261
12/31/2008	Actuarial Loss	71,000,670	73,366,302	29	3,871,001
12/31/2007	Unfunded Liability	<u>29,586,848</u>	<u>30,933,095</u>	28	<u>1,666,923</u>
Total		81,837,484	85,580,689		4,570,848

* Effective December 31, 2007, a fresh start amortization base was established equal to the excess of the actuarial liability over the smoothed fair value of assets.

Table 6**NORMAL COST**

1. Normal Cost for All Benefits	9,564,228
2. Offset for Employee Contributions	(6,467,796)
3. Estimated Expenses	600,000
4. Total	3,696,432

Table 7**CONTRIBUTION SUMMARY**

1. Annual Required Contribution Amount		
a. Normal Cost	3,696,432	
b. Amortization Charges	4,570,848	
c. Total		8,267,280
2. Annual Required Contribution Rate		
a. Normal Cost	4.43%	
b. Amortization Charges	5.48%	
c. Total		9.91%
3. Projected Pay for the Upcoming Year		83,455,429

Table 8**SCHEDULE OF FUNDING PROGRESS**

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability</u>	<u>Unfunded Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAL as a % of Covered Payroll</u>
12/31/00	194,488,937	187,644,219	(6,844,718)	103.65%	55,420,648	-12.35%
12/31/01	190,150,661	197,656,627	7,505,966	96.20%	59,292,582	12.66%
12/31/02	170,359,975	206,435,061	36,075,086	82.52%	56,454,409	63.90%
12/31/03	195,723,271	227,662,674	31,939,403	85.97%	61,380,769	52.03%
12/31/04	209,217,925	240,260,424	31,042,499	87.08%	64,252,485	48.31%
12/31/05	216,039,097	259,791,544	43,752,447	83.16%	64,061,964	68.30%
12/31/06	231,576,121	272,817,605	41,241,484	84.88%	67,750,706	60.87%
12/31/07	242,615,032	272,201,880	29,586,848	89.13%	69,261,673	42.72%
12/31/08	193,314,245	295,223,177	101,908,932	65.48%	74,183,014	137.38%
12/31/09	231,996,796	317,577,485	85,580,689	73.05%	83,455,429	102.55%

Table 9

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(GASB 27 Annual Required Contribution effective with fiscal year ended 12/31/98)

Fiscal Year Ended	Annual Required Contribution	Actual Employer Contribution	Percentage of ARC Contributed	Annual Excess/ (Shortfall)	Annual Pension Cost*	Percentage of APC Contributed	Net Pension Obligation**
12/31/2000	2,747,528	3,715,600	135.23%	968,072	2,706,566	137.28%	(1,868,847)
12/31/2001	3,859,885	3,894,757	100.90%	34,872	3,792,685	102.69%	(1,970,919)
12/31/2002	3,569,284	3,919,254	109.81%	349,970	3,789,014	103.44%	(2,101,159)
12/31/2003	4,547,346	4,017,431	88.35%	(529,915)	4,471,792	89.84%	(1,646,798)
12/31/2004	5,867,117	4,095,810	69.81%	(1,771,307)	5,811,040	70.48%	68,432
12/31/2005	6,015,711	4,148,874	68.97%	(1,866,837)	6,018,087	68.94%	1,937,645
12/31/2006	6,231,299	4,287,457	68.81%	(1,943,842)	6,298,582	68.07%	3,948,770
12/31/2007	5,742,761	4,518,363	78.68%	(1,224,398)	5,834,697	77.44%	5,265,104
12/31/2008	8,826,967	4,875,443	55.23%	(3,951,524)	8,949,550	54.48%	9,339,211
12/31/2009	8,267,280	6,474,432	78.31%	(1,792,848)	8,484,717	76.31%	11,349,496

* Amortization of prior year's Net Pension Obligation, with interest, plus ARC

** Prior Year Net Pension Obligation plus Annual Pension Cost minus Actual Employer Contribution

Table 10**HISTORICAL SUMMARY OF FUND ADDITIONS AND DEDUCTIONS****ADDITIONS BY SOURCE**

<u>Fiscal Year Ended</u>	<u>Employer Contributions as a Percent of Payroll</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>	<u>Net Investment Income</u>	<u>Total</u>
12/31/00	6.72%	3,715,600	3,715,600	10,470,991	17,902,191
12/31/01	6.72%	3,894,757	3,895,131	(1,820,109)	5,969,779
12/31/02	6.72%	3,919,254	3,919,254	(16,687,140)	(8,848,632)
12/31/03	6.72%	4,017,431	4,029,561	28,862,507	36,909,499
12/31/04	6.72%	4,095,810	4,152,843	17,530,588	25,779,241
12/31/05	6.72%	4,148,874	4,154,743	11,985,450	20,289,067
12/31/06	6.72%	4,287,457	4,336,560	21,140,066	29,764,083
12/31/07	6.72%	4,518,363	4,518,363	16,715,588	25,752,314
12/31/08	6.72%	4,875,443	4,882,622	(59,972,361)	(50,214,296)
12/31/09	7.75%	6,474,432	6,637,872	38,442,846	51,555,150

DEDUCTIONS BY TYPE

<u>Fiscal Year Ended</u>	<u>Benefit Payments</u>	<u>Refunds</u>	<u>Admin Expenses</u>	<u>Total</u>
12/31/00	8,704,644	520,973	429,178	9,654,795
12/31/01	9,371,697	480,050	399,918	10,251,665
12/31/02	10,042,276	488,945	410,833	10,942,054
12/31/03	10,599,607	461,226	485,370	11,546,203
12/31/04	11,109,084	576,433	494,831	12,180,348
12/31/05	12,404,497	605,600	457,798	13,467,895
12/31/06	13,322,042	492,193	412,824	14,227,059
12/31/07	14,253,955	717,005	448,654	15,419,614
12/31/08	15,002,061	370,947	581,294	15,954,302
12/31/09	15,509,868	315,919	563,408	16,389,195

Table 11**SCHEDULE OF MEMBERSHIP**

<u>Fiscal Year Ended</u>	<u>Active Members</u>	<u>Terminated Vested Members</u>	<u>Service Retirees and Beneficiaries</u>	<u>Disabled Retirees</u>	<u>Total Retirees</u>	<u>Total Members</u>
12/31/99	1,467	70	739	18	757	2,294
12/31/01	1,475	69	789	16	805	2,349
12/31/03	1,457	72	825	13	838	2,367
12/31/05	1,387	84	917	13	930	2,401
12/31/06	1,414	95	955	13	968	2,477
12/31/07	1,425	99	995	13	1,008	2,532
12/31/08	1,492	94	1,008	11	1,019	2,605
12/31/09	1,501	89	1,041	10	1,051	2,641

Table 12**SCHEDULE OF ACTIVE MEMBERS VALUATION DATA**

<u>Fiscal Year Ended</u>	<u>Active Members</u>	<u>Covered Payroll</u>	<u>Average Payroll Rate</u>	<u>Annual Percentage Increase in Average Payroll Rate</u>
12/31/1999	1,467	54,142,268	36,907	3.53%
12/31/2001	1,475	59,292,582	40,198	4.36%
12/31/2003	1,457	61,380,769	42,128	2.37%
12/31/2005	1,387	64,061,964	46,187	4.71%
12/31/2006	1,414	67,750,706	47,914	3.74%
12/31/2007	1,425	69,261,673	48,605	1.44%
12/31/2008	1,492	74,183,014	49,721	2.30%
12/31/2009	1,501	83,455,429	55,600	11.82%

Table 13**SCHEDULE OF RETIREES ADDED TO AND REMOVED FROM ROLLS**

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Added</u>	<u>Annual</u> <u>Allowances</u> <u>Added</u>	<u>Removed</u>	<u>Annual</u> <u>Allowances</u> <u>Removed</u>	<u>Total</u>	<u>Annual</u> <u>Allowances</u>	<u>Percent</u> <u>Change</u>	<u>Average</u> <u>Annual</u> <u>Allowances</u>	<u>Retirees as Percent</u> <u>of Active Members</u>	
									<u>Number</u>	<u>Pay</u>
12/31/2006	71	1,252,138	34	339,133	968	13,645,458	N/A	14,097	68.5%	20.1%
12/31/2007	75	1,389,758	35	353,060	1,008	14,682,156	7.6%	14,566	70.7%	21.2%
12/31/2008	50	830,767	39	357,857	1,019	15,155,066	3.2%	14,872	68.3%	20.4%
12/31/2009	70	1,586,201	38	414,388	1,051	16,326,879	7.7%	15,535	70.0%	19.6%

Table 14**SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT**

Amount of Monthly Benefit	Number of Retirees	Type of Retirement*			Option Selected**						
		1	2	3	LIFE	C1	C2	C3	C4	D	E
1 - 100	2	2	0	0	2	0	0	0	0	0	0
101 - 200	20	15	0	5	4	0	0	0	0	2	14
201 - 300	31	28	0	3	19	2	1	0	0	3	6
301 - 400	52	40	0	12	26	1	0	0	1	6	18
401 - 500	65	50	1	14	32	0	0	1	1	10	21
501 - 600	61	53	0	8	38	0	1	1	0	5	16
601 - 700	61	52	2	7	31	1	0	0	0	9	20
701 - 800	64	53	1	10	37	0	0	0	2	11	14
801 - 900	60	52	1	7	38	0	1	0	0	6	15
901 - 1,000	56	51	0	5	25	3	1	0	0	7	20
1,001 - 1,500	218	191	5	22	109	1	2	1	1	27	77
1,501 - 2,000	161	148	0	13	79	0	0	0	1	21	60
Over 2,000	200	198	0	2	83	5	0	1	0	44	67
Total	1,051	933	10	108	523	13	6	4	6	151	348

*Type of Retirement:

- 1 Service Retirement
- 2 Disability Retirement
- 3 Beneficiary

**Option Selected:

- Life Remaining accumulated balance paid to beneficiary
- Opt. C1 60 months guaranteed
- Opt. C2 120 months guaranteed
- Opt. C3 180 months guaranteed
- Opt. C4 240 months guaranteed
- Opt. D 50% continuation to beneficiary
- Opt. E 100% continuation to beneficiary

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended	Service Retirement	Disability Retirement	Beneficiaries	Refunds	Total Benefits
12/31/2000	7,811,737	148,801	744,106	520,973	9,225,617
12/31/2001	8,395,024	152,803	823,870	480,050	9,851,747
12/31/2002	9,047,124	145,753	849,399	488,945	10,531,221
12/31/2003	9,557,946	142,349	899,312	461,226	11,060,833
12/31/2004	10,058,421	150,494	900,169	576,433	11,685,517
12/31/2005	11,313,520	148,355	942,622	605,600	13,010,097
12/31/2006	12,189,473	143,990	988,579	492,193	13,814,235
12/31/2007	13,115,104	143,990	994,861	717,005	14,970,960
12/31/2008	13,835,194	136,093	1,030,774	370,947	15,373,008
12/31/2009	14,341,682	130,868	1,037,317	315,919	15,825,786

Table 15**SCHEDULE OF AVERAGE ANNUAL BENEFIT PAYMENTS**

<u>Fiscal Year Ended</u>	<u>Service Retirement and Beneficiaries</u>	<u>Disability Retirement</u>	<u>Total</u>	<u>Annual Percentage Increase in Average Benefits</u>
12/31/1999	10,330	8,073	10,277	4.64%
12/31/2001	11,684	9,550	11,642	6.43%
12/31/2003	12,675	10,950	12,649	4.24%
12/31/2005	13,365	11,412	13,338	2.69%
12/31/2006	13,799	11,076	13,762	3.18%
12/31/2007	14,181	11,076	14,141	2.75%
12/31/2008	14,748	12,372	14,722	4.11%
12/31/2009	14,773	13,087	14,757	0.24%

Table 16**DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS****Actuarial Cost Method**

The actuarial cost method used to determine the actuarial accrued liability and the normal cost is the Projected Unit Credit (PUC) Actuarial Cost Method. The accrued liability and the normal cost are used to determine the City's contribution requirement. Under this method, a PUC accrued benefit is determined for each active member in the plan on the basis of the member's average final compensation projected to the assumed date of retirement and the member's creditable service at the valuation date. The actuarial accrued liability for retirement benefits is the sum of the actuarial present value of the PUC accrued benefit for each active member. The normal cost for retirement benefits is the sum of the actuarial present value of the expected increase in the PUC accrued benefit during the plan year for each active member under the assumed retirement age.

The actuarial accrued liability and normal cost for termination benefits, disability benefits, and pre-retirement spouse's death benefits are determined in a similar manner by projecting the member's average final compensation to each assumed date of termination, disablement, or death.

The actuarial accrued liability for inactive members is determined as the actuarial present value of the benefits expected to be paid; no normal cost is determined for these members.

Unless otherwise specified, the following actuarial assumptions and methods were adopted December 31, 2007.

Actuarial Assumptions

Mortality:	Healthy Lives	1994 Group Annuity Mortality Static Table
	Disabled Lives	1994 Group Annuity Mortality Static Table
Interest:	7.5% per annum, compounded annually	
Turnover:	In accordance with the following table based on service:	

<u>Years of Service</u>	<u>Turnover Probability</u>
<3	8.0%
3-6	5.0%
7-9	4.0%
10-14	3.0%
15+	2.0%

Table 16**DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS**

Retirement: In accordance with the following table based on age:

<u>Age</u>	<u>Retirement Probability</u>
<50	0.0%
50	8.0%
51	7.0%
52	6.0%
53-54	5.0%
55	9.0%
56	8.0%
57-60	7.0%
61	10.0%
62	20.0%
63-65	25.0%
66	30.0%
67-68	35.0%
69-70	40.0%
71	45.0%
72	50.0%
73+	100.0%

Disability: None assumed

Salary Increases: In accordance with the following table based on service:

<u>Years of Service</u>	<u>Annual Increase</u>
<2	10.0%
2-3	8.0%
4-15	3.5%
16+	3.0%

Inflation Rate: 3.00% per year

**Non-Investment
Expenses:** Prior year's actual amount rounded up to next \$100,000

Family Composition: 75% of employees are assumed to be married with males assumed to be four years older than their spouses.

Asset Valuation Basis

Smoothed fair value of assets, which is the Market Value with a five year averaging of the difference between actual and expected investment performance subject to the restriction that the smoothed fair value of assets must not be less than 90% nor greater than 110% of Market Value.

Table 17**SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS**

Outlined on the following pages are the principal features of the Plan reflected in the 2009 valuation.

Definitions:

<u>Creditable Service</u>	Service credited as an employee of the City of Spokane during which contributions were made as an eligible member of the Retirement System up to a maximum of 35 years. The maximum is 30 years for employees hired prior to January 1, 2009 who terminate after January 1, 2009 and who do not elect the alternate benefit formula described below.
<u>Service Buy-Back</u>	A six-month window was opened from October 1, 2009 through March 31, 2010 during which members who had withdrawn their retirement accumulations and not elected to buy back prior service time could do so. Future rehired employees will have one year from their date of rehire to elect to buy back prior service time
<u>Compensation</u>	Total amount received by an employee including base pay, shift differential, overtime, holiday pay, hazardous duty pay and out-of-classification pay and not reduced by salary reduction contributions to the City's cafeteria plan or Section 457 plan.
<u>Final Compensation</u>	The highest average annual Compensation received by a member during any two consecutive years of creditable service.
<u>Normal Retirement Date</u>	The first day of the month coinciding with or next following the attainment of age 62 and completion of 5 years of Creditable Service.
<u>Early Retirement Date</u>	The first day of the month coinciding with or next following the attainment of age 50 and with the sum of age plus Creditable Service greater than or equal to 75. Employees hired prior to January 1, 2009 who terminate after January 1, 2009 and who do not elect the alternate benefit formula described below may retire after attainment of age 50 with 5 years of Creditable Service.
<u>Member Contributions</u>	7.75% of Compensation is required to be paid by the members. These contributions are credited with 5% interest annually, compounded quarterly.

Table 17**SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS**

Service Retirement Eligibility: A member is eligible for normal retirement on his Normal Retirement Date. Early retirement is permitted at any time after attaining age 50 if the sum of age plus Creditable Service is greater than or equal to 75. Early retirement is permitted at any time after attaining age 50 with 5 years of Credited Service for employees hired prior to January 1, 2009 who terminate after January 1, 2009 and who do not elect the alternate benefit formula described below.

Service Retirement Allowance: Upon service retirement, a member becomes eligible to receive an annual allowance, payable in equal monthly installments. The annual allowance is computed as follows:

Normal Retirement Allowance under Alternate Benefit Formula

Applies to all employees hired after January 1, 2009. Employees hired before January 1, 2009 who terminate after January 1, 2009 may elect this formula at retirement.

An amount equal to 2.00% of the member's Final Compensation, multiplied by the number of years of Creditable Service up to 35 years. The maximum annual benefit is 70.0% of Final Compensation.

Normal Retirement Allowance under Benefit Formula in SMC 3.05.160

Employees hired before January 1, 2009 who terminate after January 1, 2009 may elect this formula at retirement.

An amount equal to 2.15% of the member's Final Compensation, multiplied by the number of years of Creditable Service up to 30 years. The maximum annual benefit is 64.5% of Final Compensation.

Early Retirement Allowance

The Normal Retirement Allowance calculated using Creditable Service and Final Compensation as of the member's Early Retirement Date.

Disability Retirement Eligibility: Permanent and total disability, as determined by the Board, prior to age 65 provided the member has at least 5 years of City service in the ten-year period prior to disability. The 5 year service requirement does not apply if the disability is due to accidental causes while engaged in City service.

Disability Retirement Allowance: An amount equal to 1.25% of the member's Final Compensation, multiplied by the number of years of Creditable Service projected to age 62. The minimum annual benefit is \$2,400 per year for "Duty Related" disability and \$1,200 per year for "Non-duty Related" disability.

Table 17**SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS****Withdrawal Benefits:**

If termination occurs after five years of service, a member is entitled to a retirement allowance commencing on his Early Retirement Date or later, up to his Normal Retirement Date, based on his years of Creditable Service and Final Compensation as of his termination date provided he has not withdrawn his Member Contributions.

Death Benefit Before Retirement:**Not married or not completed 5 years of service**

Beneficiary will receive a refund of the member's contributions with interest.

Married with 5 years of service

The surviving spouse of a member may elect to receive the survivor's portion of the benefit that would have been payable if the member had survived to his earliest retirement date and elected the 100% Joint & Survivor option in lieu of a refund of the member's contribution account.

Post-retirement Death:

An amount determined in accordance with the optional form of payment elected at retirement, but not less than the accumulated value of the member's contributions with interest less actual payments made.

Appendix - Data Tables

Exhibit A	Summary of Membership Data as of December 31, 2009
Exhibit B	20 Year Benefit Payment Projections
Exhibit C	Age and Service Distributions
Exhibit D	Age, Salary and Service Distributions
Exhibit E	Average Benefits for Service Retirement
Exhibit F	Average Benefits for Survivor Beneficiary
Exhibit G	Average Benefits for Disability Retirement
Exhibit H	Average Benefits for Vested Terminations
Exhibit I	Average Benefits for Portables

EXHIBIT A**Summary of Membership Data as of December 31, 2009****Active Members**

Item	Male	Female	Total
Number of Members	967	534	1,501
Annual Salaries	\$55,227,813	\$27,214,756	\$82,442,569
Average Age	47.7	48.3	47.9
Average Service	12.3	10.9	11.8

EXHIBIT A
(continued)

Summary of Membership Data as of December 31, 2009

Retirees and Beneficiaries

Item	Number	Annual Annuities	Average Annuities
Retired Members	933	\$15,118,375	\$16,204
Survivor Annuitants	108	\$1,091,102	\$10,103
Disabled Annuitants	10	\$117,402	\$11,740
Total Annuitants	1,051	\$16,326,879	\$15,535

EXHIBIT A
(continued)

Summary of Membership Data as of December 31, 2009

Vested Terminations and Portables

Item	Number	Annual Annuities	Average Annuities
Vested Terminations	61	\$763,006	\$12,508
Portables*	28	\$154,381	\$5,514

* Annuity amounts are estimates based on last known earnings projected to retirement. Actual annuity amounts will be calculated using actual earnings at retirement.

EXHIBIT B**20 Year Benefit Payment Projection****Spokane Employees' Retirement System**

Year Ended December 31	Current and Future Retirees	Current Retirees Only
2010	\$18,829,571	\$16,199,919
2011	20,033,397	15,916,268
2012	21,237,467	15,613,745
2013	22,442,055	15,295,197
2014	23,618,035	14,967,757
2015	24,553,867	14,599,452
2016	25,497,055	14,246,024
2017	26,323,765	13,877,347
2018	27,036,161	13,498,919
2019	27,636,207	13,110,987
2020	28,113,879	12,712,861
2021	28,498,423	12,304,645
2022	28,783,108	11,886,713
2023	28,912,848	11,450,649
2024	28,924,826	11,014,318
2025	28,856,106	10,569,302
2026	28,663,010	10,116,043
2027	28,369,788	9,655,139
2028	27,996,016	9,187,396
2029	27,518,068	8,713,848

EXHIBIT C**Age and Service Distribution****Spokane Employees' Retirement System**

Attained Age	Under 1	1 to 4	5 to 9	Years of Creditable Service					35 to 39	40 & Up	Total
				10 to 14	15 to 19	20 to 24	25 to 29	30 to 34			
Under 25	3	18	0	0	0	0	0	0	0	0	21
25 to 29	19	62	7	0	0	0	0	0	0	0	88
30 to 34	8	57	45	8	0	0	0	0	0	0	118
35 to 39	6	56	39	29	2	0	0	0	0	0	132
40 to 44	11	55	39	51	30	11	1	0	0	0	198
45 to 49	12	38	40	47	60	27	5	0	0	0	229
50 to 54	9	51	42	37	65	38	19	11	0	0	272
55 to 59	7	32	40	35	42	35	31	24	11	0	257
60 to 64	3	14	28	23	31	15	10	16	8	0	148
65 to 69	0	3	3	10	7	4	1	1	1	1	31
70 & Up	0	0	1	0	2	1	0	1	0	2	7
Total	78	386	284	240	239	131	67	53	20	3	1,501
Freq. Pct.	5.2%	25.7%	18.9%	16.0%	15.9%	8.7%	4.5%	3.5%	1.3%	0.2%	100.0%

EXHIBIT D**Age, Salary and Service Distribution****Spokane Employees' Retirement System**

Attained Age	Years of Creditable Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up	
Under 25	26,595	478,560	0	0	0	0	0	0	0	0	505,155
25 to 29	747,762	2,512,492	217,365	0	0	0	0	0	0	0	3,477,619
30 to 34	402,530	2,478,573	2,467,436	374,504	0	0	0	0	0	0	5,723,043
35 to 39	272,774	2,858,381	2,147,939	1,202,174	36,382	0	0	0	0	0	6,517,650
40 to 44	336,279	2,821,601	2,527,805	3,448,866	1,721,059	532,145	0	0	0	0	11,387,755
45 to 49	533,336	1,933,744	2,161,017	2,776,401	3,405,816	1,487,193	174,176	0	0	0	12,471,682
50 to 54	411,144	2,638,892	2,601,457	2,228,476	3,589,703	2,050,391	1,134,479	577,573	0	0	15,232,115
55 to 59	372,468	1,632,423	2,085,304	1,998,688	2,611,238	2,282,077	1,928,264	1,480,332	592,339	0	14,983,133
60 to 64	175,706	811,826	1,771,409	1,444,163	1,880,951	1,006,705	788,433	1,055,710	570,837	0	9,505,740
65 to 69	0	288,469	152,022	426,760	503,529	344,418	68,640	198,321	163,794	48,521	2,194,474
70 & Up	0	0	54,748	69,244	82,964	41,400	0	87,920	0	107,926	444,203
Total	3,278,595	18,454,962	16,186,500	13,969,275	13,831,642	7,744,328	4,093,992	3,399,856	1,326,971	156,448	82,442,568
Freq. Pct.	4.0%	22.4%	19.6%	16.9%	16.8%	9.4%	5.0%	4.1%	1.6%	0.2%	100.0%
Avg. Sal.	42,033	47,811	56,995	58,205	57,873	59,117	61,104	64,148	66,349	52,149	54,925

EXHIBIT E**Average Benefits for Service Retirement****Spokane Employees' Retirement System**

Attained Age	Male		Female		Total	
	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	0	0	0	0	0	0
50 to 54	32	17,465	20	11,325	52	15,103
55 to 59	91	19,772	53	15,359	144	18,148
60 to 64	126	21,518	70	13,628	196	18,700
65 to 69	104	19,560	70	11,907	174	16,482
70 to 74	86	19,325	52	13,252	138	17,036
75 to 79	55	14,825	22	10,559	77	13,607
80 to 84	49	14,701	23	13,172	72	14,212
85 to 89	31	10,653	24	9,772	55	10,269
90 to 94	12	8,693	9	7,161	21	8,037
95 & Up	2	5,680	2	9,882	4	7,781
Total	588	18,278	345	12,670	933	16,204
Average Age	68.3		68.1		68.2	
Freq. Pct.	63.0%		37.0%		100.0%	

EXHIBIT F**Average Benefits for Survivor Beneficiary****Spokane Employees' Retirement System**

Attained Age	Male		Female		Total	
	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	0	0	0	0	0	0
50 to 54	1	9,123	3	14,407	4	13,086
55 to 59	0	0	7	9,799	7	9,799
60 to 64	0	0	6	14,239	6	14,239
65 to 69	0	0	11	10,575	11	10,575
70 to 74	1	11,974	13	14,821	14	14,618
75 to 79	3	6,450	20	10,338	23	9,831
80 to 84	0	0	16	7,764	16	7,764
85 to 89	0	0	9	9,256	9	9,256
90 to 94	1	8,765	13	7,493	14	7,584
95 & Up	0	0	4	5,987	4	5,987
Total	6	8,202	102	10,215	108	10,103
Average Age	74.3		76.7		76.5	
Freq. Pct.	5.6%		94.4%		100.0%	

EXHIBIT G**Average Benefits for Disability Retirement****Spokane Employees' Retirement System**

Attained Age	Male		Female		Total	
	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 50	0	0	0	0	0	0
50 to 54	3	14,293	1	16,035	4	14,729
55 to 59	0	0	2	9,296	2	9,296
60 to 64	1	13,295	1	12,898	2	13,096
65 to 69	1	5,873	0	0	1	5,873
70 to 74	0	0	0	0	0	0
75 to 79	0	0	0	0	0	0
80 to 84	1	7,828	0	0	1	7,828
85 to 89	0	0	0	0	0	0
90 to 94	0	0	0	0	0	0
95 & Up	0	0	0	0	0	0
Total	6	11,646	4	11,881	10	11,740
Average Age	61.5		58.0		60.1	
Freq. Pct.	60.0%		40.0%		100.0%	

EXHIBIT H**Average Benefits for Vested Terminations****Spokane Employees' Retirement System**

Attained Age	Male		Female		Total	
	Number	Avg. Ben.	Number	Avg. Ben.	Number	Avg. Ben.
Under 30	0	0	0	0	0	0
30 to 34	0	0	2	6,343	2	6,343
35 to 39	5	9,076	4	7,278	9	8,277
40 to 44	11	12,187	3	9,898	14	11,697
45 to 49	13	17,947	13	13,040	26	15,493
50 to 54	3	8,139	4	13,666	7	11,298
55 to 59	0	0	3	10,057	3	10,057
60 to 64	0	0	0	0	0	0
65 & Up	0	0	0	0	0	0
Total	32	13,661	29	11,236	61	12,508
Average Age	44.3		45.5		44.9	
Freq. Pct.	52.5%		47.5%		100.0%	

EXHIBIT I**Average Benefits for Portables****Spokane Employees' Retirement System**

Attained Age	Male		Female		Total	
	Number	Avg. Ben.*	Number	Avg. Ben.*	Number	Avg. Ben.*
Under 30	1	1,422	0	0	1	1,422
30 to 34	0	0	0	0	0	0
35 to 39	1	2,240	2	2,709	3	2,553
40 to 44	3	3,272	1	6,169	4	3,996
45 to 49	4	6,660	2	3,986	6	5,769
50 to 54	1	8,229	3	9,398	4	9,106
55 to 59	1	726	3	3,695	4	2,952
60 to 64	2	3,717	3	12,595	5	9,044
65 & Up	1	1,249	0	0	1	1,249
Total	14	4,126	14	6,902	28	5,514
Average Age	47.9		51.8		49.9	
Freq. Pct.	50.0%		50.0%		100.0%	

* Annuity amounts are estimates based on last known earnings projected to retirement. Actual annuity amounts will be calculated using actual earnings at retirement.

Statistical Section

Schedule of Revenues by Source

Fiscal Year	Employer Contribution	Employer Contributions	Member Contributions	Net Investment Income	Total Revenues
1996	6.72%	\$3,153,824	\$3,153,849	\$12,001,154	\$18,308,827
1997	6.72%	3,255,914	3,255,940	17,724,510	24,236,364
1998	6.72%	3,514,958	3,525,057	15,109,664	22,149,679
1999	6.72%	3,643,468	3,655,819	18,454,642	25,753,929
2000	6.72%	3,715,600	3,715,600	10,470,991	17,902,191
2001	6.72%	3,894,757	3,895,131	(1,820,109)	5,969,779
2002	6.72%	3,919,254	3,919,254	(16,687,140)	(8,848,632)
2003	6.72%	4,017,431	4,029,561	28,862,507	36,909,499
2004	6.72%	4,095,810	4,152,843	17,530,588	25,779,241
2005	6.72%	4,148,874	4,154,743	11,985,450	20,289,067
2006	6.72%	4,287,457	4,336,560	21,140,066	29,764,083
2007	6.72%	4,518,363	4,518,363	16,715,588	25,752,314
2008	6.72%	4,875,443	4,882,622	(59,972,361)	(50,214,296)
2009	7.75%	6,474,432	6,637,872	38,442,846	51,555,150

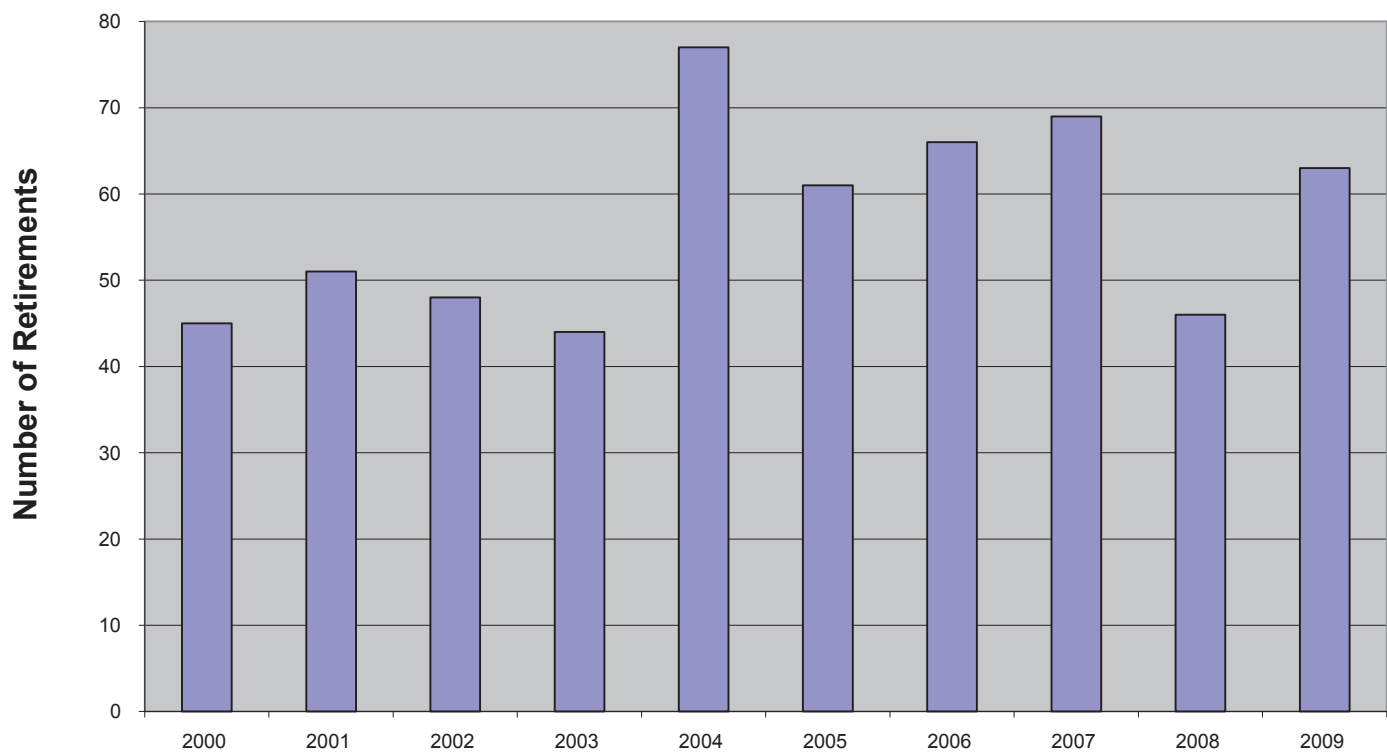
Schedule of Expenses by Type

Fiscal Year	Benefits	Refunds	Net Administrative	Total Expenses
1996	\$6,590,519	\$440,926	\$345,004	\$7,376,449
1997	7,001,401	354,289	355,400	7,711,090
1998	7,327,482	547,031	352,272	8,226,785
1999	7,779,528	502,764	375,385	8,657,677
2000	8,704,644	520,973	429,178	9,654,795
2001	9,371,697	480,050	399,918	10,251,665
2002	10,042,276	488,945	410,833	10,942,054
2003	10,599,607	461,226	485,370	11,546,203
2004	11,109,084	576,433	494,831	12,180,348
2005	12,404,497	605,600	457,798	13,467,895
2006	13,322,042	492,193	412,824	14,227,059
2007	14,253,955	717,005	448,654	15,419,614
2008	15,002,061	370,947	581,294	15,954,302
2009	15,509,868	315,919	563,408	16,389,195

Schedule of Benefit Expenses by Type

Year	Service Retiree Benefits	Survivor Benefits	Disability Retiree Benefits	Refunds	Total
1996	\$5,845,673	\$637,876	\$106,970	\$440,926	\$7,031,445
1997	6,205,060	685,793	110,548	354,289	7,355,690
1998	6,495,974	711,738	119,770	547,031	7,874,513
1999	6,921,021	713,185	145,322	502,764	8,282,292
2000	7,811,737	744,106	148,801	520,973	9,225,617
2001	8,395,024	823,870	152,803	480,050	9,851,747
2002	9,047,124	849,399	145,753	488,945	10,531,221
2003	9,557,946	899,312	142,349	461,226	11,060,833
2004	10,058,421	900,169	150,494	576,433	11,685,517
2005	11,313,520	942,622	148,355	605,600	13,010,097
2006	12,189,473	988,579	143,990	492,193	13,814,235
2007	13,115,104	994,861	143,990	717,005	14,970,960
2008	13,835,194	1,030,774	136,093	370,947	15,373,008
2009	14,341,682	1,037,317	130,869	315,919	15,825,787

Retirements by Year



Retirements During 2009

Service Retirements

	Name	Department	Position	Date Retired	Option	Yrs Serv	Age
1	Stephen T. Hendricks	Library	Maintenance & Facilities Manager	01/10/09	E	28.4	60
2	Mary M. Schott	Municipal Court	Clerk III	01/10/09	ST	5.0	57
3	Lawrence E. Simon	Water	Water Service Foreperson	01/10/09	E	36.2	58
4	Richard A. Ervin	Street	Signal Maint Tech II/Elec Tech II	02/03/09	ST	24.0	57
5	James A. Ray	Sewer Maintenance	Laborer II	02/03/09	ST	20.5	54
6	Stephen E. Twiggs	Civil Service	Exam & Classification Analyst III	02/03/09	C-5	37.7	65
7	Janice E. Colburn	Police	Police Radio Dispatcher III	02/07/09	D	25.3	62
8	Linda K. Ferrell	Retirement	Secretary II	02/07/09	E	17.8	61
9	Randolph B. Strautman	Library	Support Services Manager	02/07/09	E	11.5	58
10	Jean E. Rosado ^	Water	Water Service Specialist	02/28/09	E	31.9	57
11	Marlin D. Nierstheimer	Street	Street Maintenance Operator II	03/07/09	D	25.0	53
12	Scott D. Egger *	Street	Street Director	03/13/09	E	7.8	50
13	Joan E. Poirier *	Mayor	Exec Assist/Office Manager	04/02/09	E	9.7	50
14	Gayle L. Crockett	Legal	Attorney Assistant	04/04/09	ST	25.1	65
15	Brian D. Clouse	Sewer Maintenance	Waste Water District Supervisor	05/02/09	E	25.8	52
16	Cheryl A. Eckhart *	Utility Billing	Clerk II	05/03/09	ST	8.7	50
17	Robert L. Loveless	Street	Asphalt Raker	05/05/09	ST	19.4	62
18	Gary L. Towner	Fleet Services	Building Maintenance Foreperson	06/02/09	D	30.4	67
19	Theodore P. Vagenas	AWWTP	Senior WWTP Maint. Mechanic	06/02/09	ST	29.0	61
20	John W. Day	MIS	Reprographics Equipment Tech	06/20/09	E	15.9	62
21	Steven L. Haynes	Planning Services	City Planner II	07/18/09	D	29.0	56
22	Hossein R. Nikdel *	MIS	Information Analyst	07/23/09	C-20	6.0	50
23	Patricia A. Minnihan	Legal	Clerk II	08/04/09	ST	12.7	59
24	James L. Rowe	AWWTP	WWTP Operator III	08/22/09	D	26.0	62
25	Vincent F. Lemus *	Administrative Services	Contract Compliance Officer	08/23/09	C-10	6.7	50
26	Nancy G. Smith	Parks & Recreation	Clerk III	09/02/09	ST	32.1	66
27	Kathleen J. Kuntz ^	Police	Crime Analyst	09/08/09	E	20.3	60
28	Gary H. Bytnar	Street	Signal Maint Tech II/Elec Tech II	09/09/09	ST	9.1	61
29	Charlotte S. Thacker	Public Works & Utilities	Administrative Secretary	09/19/09	ST	7.3	68
30	Peggy C. Waldron #	Workforce Dev Council	Assistant Director	10/02/09	ST	2.4	61
31	James L. Murray	AWWTP	WWTP Operator II	10/03/09	E	30.4	60
32	Bob Sproul	Water	Labor Foreperson	10/10/09	D	25.7	62
33	Joyce A. Smee	Solid Waste Disposal	Administrative Secretary	10/24/09	ST	21.5	62
34	John W. Schulte	Water	Certified Water Hydro Plant Mech	10/31/09	D	28.5	60
35	Patricia A. Plotzki	Police	Clerk III	11/03/09	E	26.3	62
36	Steven A. Weed	Solid Waste Management	Refuse Collector III	11/03/09	E	35.8	60
37	Shawn C. Gurske	Water	Heavy Equipment Operator	11/07/09	ST	29.3	50
38	Ancil K. Humphrey	Parks & Recreation	Equipment Operator	11/07/09	ST	35.2	57
39	Susanne M. Croft	Business & Dev Services	City Planner II	12/02/09	ST	11.1	56
40	Maralee J. Barto	Solid Waste Disposal	Clerk I	12/12/09	ST	10.6	66
41	Edward J. Basinger	Street	Parking Meter Foreperson	12/12/09	D	37.2	64
42	Keith D. Bundy	Fleet Services	Equipment Maint Foreperson	12/12/09	E	24.7	61
43	Jeanne H. Culligan	Police	Clerk II	12/12/09	E	16.5	61
44	Gordon K. Gutterud	Workforce Dev Council	Accountant III	12/12/09	C-5	30.2	62
45	Thomas E. Higgins	Parks & Recreation	Parks Fac & Grounds FP	12/12/09	D	39.0	65
46	Stanley L. Judd	Street	Street Maintenance Operator I	12/12/09	E	37.2	65
47	Eric M. Larson	Solid Waste Management	Accountant III	12/12/09	ST	24.9	56
48	Rickie T. Lucas	Water	Heavy Equipment Operator	12/12/09	E	30.0	56
49	Karen S. Marshall	Business & Dev Services	Clerk III	12/12/09	ST	21.6	51
50	Erika M. Minier	Administrative Services	Building Engineer I	12/12/09	E	13.2	58
51	Terry A. Minier	Parks & Recreation	Craft Specialist	12/12/09	E	20.6	58
52	Mark F. Nord	Golf	Golf Course Superintendent	12/12/09	D	30.0	61
53	David L. Oestreicher	Street	Street Maintenance Operator II	12/12/09	ST	30.0	54
54	Richard L. Olsen	Water	Certified Water Service Specialist	12/12/09	E	38.8	64
55	Larry J. Price	Solid Waste Management	Refuse Collector III	12/12/09	E	34.5	53
56	Robert G. Remmers	Street	Street Maintenance Operator II	12/12/09	E	33.2	60
57	Cheryl J. Robinson	Municipal Court	Clerk III	12/12/09	D	18.9	61
58	Nissar H. Shah	Engineering Services	Associate Engineer	12/12/09	D	18.6	63
59	David M. Shaw	Street	Sig & Lighting/Pkg Enforc Supervisor	12/12/09	D	29.2	62
60	Lois C. Shields	Solid Waste Management	Scale Operations Foreperson	12/12/09	A	19.8	62
61	Claudia J. Vess	Fleet Services	Accounting Clerk	12/12/09	D	16.1	54
62	Erika R. Wheaton	MIS	Mail Center Specialist	12/12/09	ST	28.8	59
63	John W. Westerman *	MIS	Analyst Programmer II	12/29/09	B	8.7	53

^ Retired as spouse of deceased active employee * Retired as vested employee # Retired under membership through Portability

Deaths During 2009

Retiree Deaths

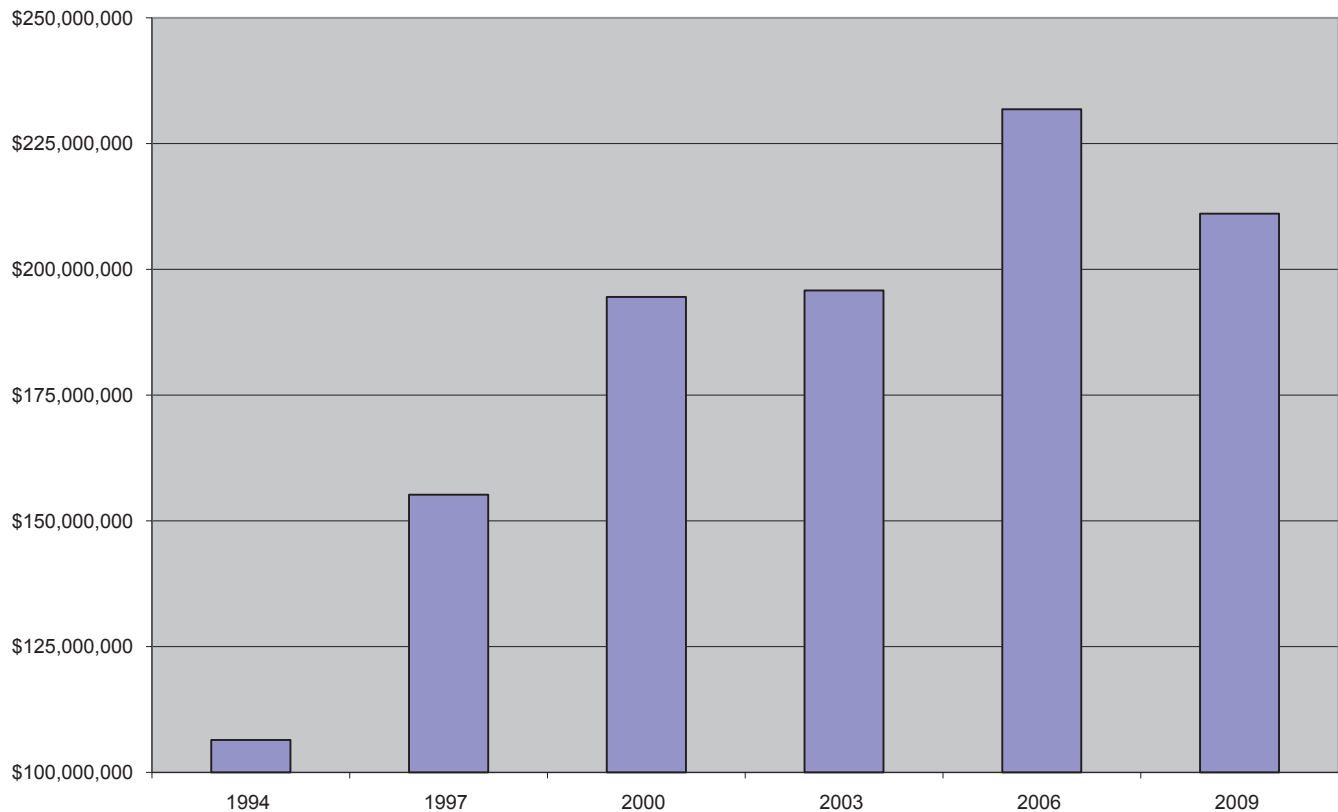
	Name	Date Retired	Date of Death	Age	Retirement Option
1	Sylvia E. Simonson	3/15/1980	1/7/2009	92	A
2	June M. Perrin	7/4/1982	1/13/2009	74	ST
3	Marie M. Westerman	11/10/1985	1/16/2009	90	E
4	Fred G. Higgelke	5/2/1981	2/7/2009	93	A
5	Leona I. Vogt	3/4/1978	2/23/2009	90	A
6	Eloise L. LaRue	5/9/1987	2/28/2009	91	A
7	Patrick J. Dolan	1/31/1980	3/3/2009	99	A
8	Laura J. Hammack	5/25/1992	3/4/2009	99	E
9	Bob M. Takeshita	1/16/1988	3/5/2009	86	A
10	Gilbert T. Martinez	9/29/1982	3/28/2009	82	ST
11	Raymond B. Coldeen	7/4/1992	4/1/2009	78	E
12	Opal E. Laukka	5/23/1986	4/4/2009	88	E
13	Barbara J. Fullmer	10/14/2002	4/10/2009	69	E
14	Lucille E. England	10/31/1986	4/11/2009	76	E
15	Mary Ann Farrell	12/31/1996	4/18/2009	73	D
16	Therese E. Kallas	5/5/2007	4/18/2009	52	D
17	Harold H. Vandeven	7/1/1978	5/26/2009	94	A
18	Keith F. Miller	7/27/1985	5/30/2009	88	E
19	Watson J. Foshee	4/7/1979	6/1/2009	88	A
20	Josie S. Spalinger	11/2/1977	6/19/2009	89	A
21	Joseph J. Kachel	6/3/1986	7/4/2009	85	E
22	Terry L. Novak	8/1/1991	8/15/2009	68	A
23	Dolores L. Gripp	10/5/1997	8/19/2009	70	ST
24	Glen A. York	1/8/1983	8/29/2009	74	A
25	Gail E. McIntosh	1/8/1984	9/9/2009	94	A
26	Katomi J. Kihara	8/5/2000	9/29/2009	74	ST
27	James A. Bays	10/19/1995	10/4/2009	62	Dis
28	Jack E. Henderson	5/30/1981	10/13/2009	82	ST
29	F. Sylvin Fulwiler	7/30/1977	10/26/2009	94	A
30	Victor G. Cole	1/2/1982	10/29/2009	93	E
31	Jack L. Beck	2/12/1999	10/30/2009	74	E
32	Jerald F. Kapelke	12/21/2004	11/11/2009	54	E
33	Glady E. Krogel	19/22/1997	11/16/2009	91	D
34	Ronald W. Gerkenmeyer	1/6/1996	11/26/2009	76	E
35	Terry L. Judd	9/15/01	12/19/2009	58	ST
36	Glen A. Yake	4/2/1985	12/21/2009	90	A

Active Member Deaths

	Name	Department	Date of Death	Age	Years of Service
1	Jose A. Rosado	Water	02/27/09	60	31.9
2	Gary L. Kuntz	Police	09/07/09	61	20.3
3	Franklin W. Doolittle	Water	12/04/09	29	1.4

Investment Section

Total Retirement Assets

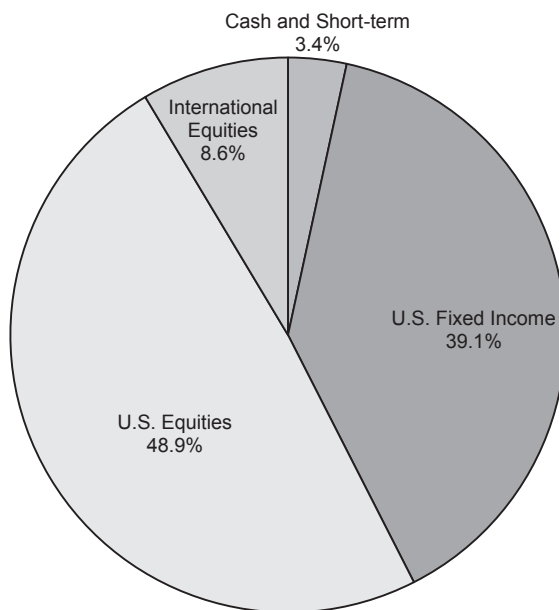


Schedule of Investment Results

		Market Value of Investments	Net Investment Income	Investment Rate of Return
2000	\$	193,346,778	\$ 10,470,991	5.90%
2001		189,123,034	(1,820,109)	-0.70%
2002		169,398,533	(16,687,140)	-8.60%
2003		194,831,995	28,862,507	17.10%
2004		209,431,314	17,530,588	9.50%
2005		216,277,686	11,985,450	6.30%
2006		231,815,276	21,140,066	10.50%
2007		242,213,605	16,715,588	7.77%
2008		175,878,430	(59,972,361)	-24.68%
2009		211,055,762	38,442,846	21.99%

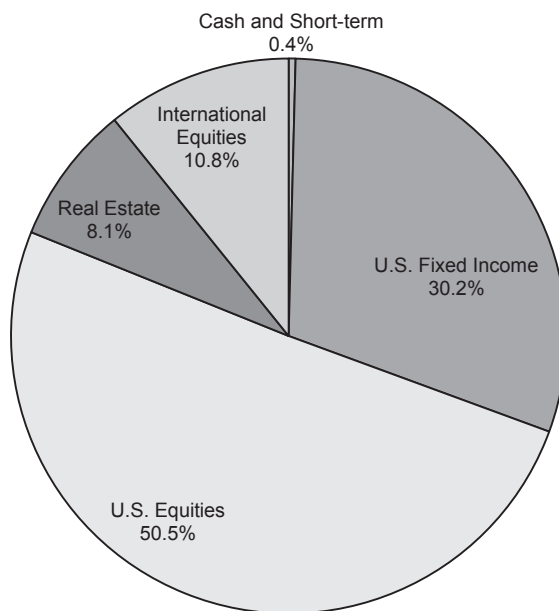
The Evolution of SERS Investment Asset Allocation

2004 Year-End Asset Allocation



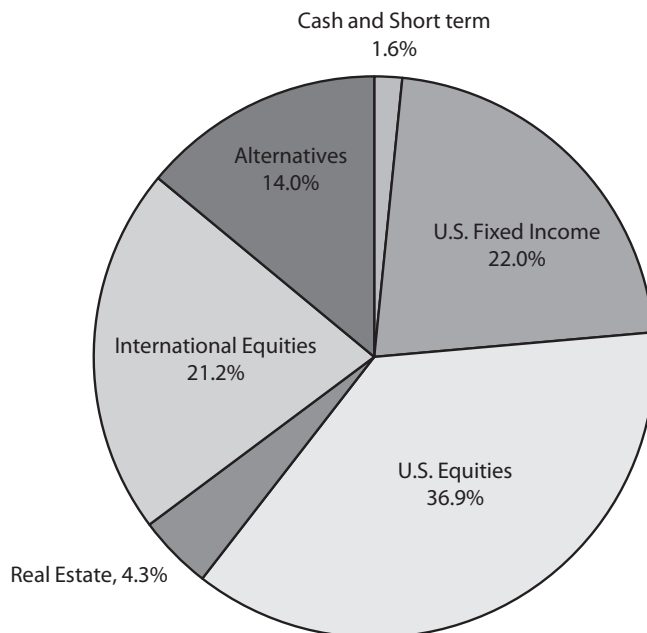
Traditional 60/40 portfolio with an allocation to international equities

2006 Year-End Asset Allocation



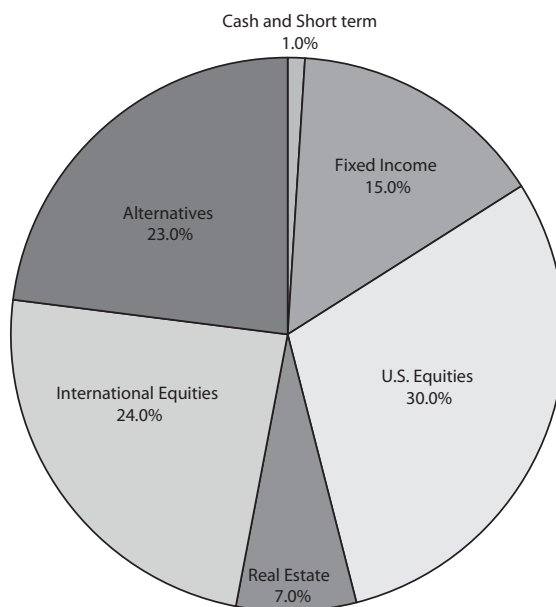
Equity exposure grew with overall market increase; real estate assets added; fixed income reduced as internally managed bond portfolio is phased out.

2009 Year-End Asset Allocation



Major shift in asset allocation (beginning in 2008) to better manage risk; alternative assets added.

Target Asset Allocation



SERS continues to manage the overall allocation towards the policy targets. Due to the complexity of certain asset classes and the unpredictability of the financial markets, it is expected to take years to reach target levels.

Investments Listed by Type

As of December 31, 2009

Market Value**Cash and Cash Equivalents:**

Cash Held by Treasurer	\$ 214,518
Union Bank	3,127,038

Fixed Income Investments:

PIMCO Low Duration	20,716,292
Vanguard Short-Term	20,720,727
Internally Managed	1,799,477
Metropolitan West High Yield I	3,262,104

Equities Investments:

Hotchkis & Wiley Core Value I	10,824,961
Santa Barbara Large Cap Growth	7,966,538
Victory Capital Large Cap Core	10,997,099
Vanguard Institutional Index	27,406,139
Sterling Mid Cap Value	4,040,565
Rainier Mid Cap Growth	2,953,297
Vanguard Mid Cap Index	3,616,705
Champlain Small Cap Growth	2,623,016
Westwood Small Cap Value	2,434,044
Essex Micro-Small Cap Growth	2,338,224
Vanguard Small Cap Index	2,663,329

International Investments:

Berens Global Value	8,543,231
Vanguard International Index	3,026,230
EuroPacific Core	15,757,525
Artisan International Value	9,522,722
Epoch International Small Cap Value	7,966,949

Real Estate Investments:

Legacy Partners Realty III	16,103
Metropolitan Realty V	521,628
Principal Global Investors REIT	8,544,339

Alternative Investments:

7 X 7 Offshore	2,467,575
Common Sense Offshore	10,097,741
Landmark Value Strategies	4,967,584
Weatherlow Offshore I	6,069,891
iShares S&P GSCI Commodity	5,850,171

Total Cash and Investments

\$211,055,762